

# BHUTAN



## PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY (PEFA) PERFORMANCE ASSESSMENT REPORT

30 June 2023



 **PFM-MDF** Bhutan Public Financial Management  
Multi Donor Fund

Supported by:

 Austrian  
Development  
Agency



Administered by:





# BHUTAN

## PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY (PEFA) PERFORMANCE ASSESSMENT REPORT

30 June 2023



Supported by:



Administered by:



### **CURRENCY EQUIVALENTS**

Currency: Ngultrum (Nu or BTN)

Nu 1 = USD 0.01219

USD 1 = Nu 82.0596

(rates as of 30 June 2023)

### **GOVERNMENT FISCAL YEAR (FY)**

July 1 – June 30

© 2023 International Bank for Reconstruction and Development / The World Bank  
1818 H Street NW  
Washington DC 20433  
Telephone: 202-473-1000  
Internet: [www.worldbank.org](http://www.worldbank.org)

This work is a product of the staff of The World Bank with external contributions. The findings, interpretations, and conclusions expressed in this work do not necessarily reflect the views of The World Bank, its Board of Executive Directors, or the governments they represent.

The World Bank does not guarantee the accuracy, completeness, or currency of the data included in this work and does not assume responsibility for any errors, omissions, or discrepancies in the information, or liability with respect to the use of or failure to use the information, methods, processes, or conclusions set forth. The boundaries, colors, denominations, and other information shown on any map in this work do not imply any judgment on the part of The World Bank concerning the legal status of any territory or the endorsement or acceptance of such boundaries.

Nothing herein shall constitute or be construed or considered to be a limitation upon or waiver of the privileges and immunities of The World Bank, all of which are specifically reserved.

### **Rights and Permissions**

The material in this work is subject to copyright. Because The World Bank encourages dissemination of its knowledge, this work may be reproduced, in whole or in part, for noncommercial purposes as long as full attribution to this work is given.

Any queries on rights and licenses, including subsidiary rights, should be addressed to World Bank Publications, The World Bank Group, 1818 H Street NW, Washington, DC 20433, USA; fax: 202-522-2625; e-mail: [pubrights@worldbank.org](mailto:pubrights@worldbank.org).

Cover photo: Savinay Grover, World Bank

Cover design: Macro Graphics Pvt Ltd | [www.macrographics.com](http://www.macrographics.com)

## About the Assessments

The 2022 PEFA assessments comprise three reports; PFM, PEFA Climate and PEFA Gender reports, which have been prepared under the most recent frameworks for each of these issued by the PEFA Secretariat:

- **Volume I** – Public Financial Management (PFM) Performance Assessment;
- **Volume II** – Climate Responsive Public Financial Management (CRPFM) Assessment; and
- **Volume III** – Gender Responsive Public Financial Management (GRPFM) Assessment.

The three reports are published as separate volumes.

The cut-off date for all three PEFA assessments was 30 June 2022, hence they cover FY 2019/20, FY 2020/21 and FY 2021/22, while the last budget submitted to Parliament for purposes of the assessments is FY 2022/23, which was submitted in FY 2021/22. This means that the PEFA assessments were based on the organization of the Royal Government of Bhutan (RGoB) that existed during the periods assessed. Consequently, it does not take into account the reorganization of the Ministry of Finance (MoF) that took effect from 2 October 2022 based on Notification No. MoF/FS-18/2022-33/541 issued by the MoF, and the reorganization of other ministries that took effect on 30 December 2022 based on Notification No. RCSC/LD-63/2022/2265 issued by the Royal Civil Service Commission (RCSC) following the Enactment of the Civil Service Reform Act of Bhutan 2022. A summary of the changed structure and entity titles is provided below:

Former name of Department / Agency / Ministry	New name and status of Department/ Agency / Ministry
<b>Notification number and date: MoF/FS-18/2022-33/541 dated 2 October 2022</b>	
Gross National Happiness Commission (GNHC)	The Development Cooperation Division [DCD] of GNHC is integrated with Development Coordination and Debt Management Division under the MoF's Department of Macro-fiscal and Development Finance.
	The Local Development Division (LDD) and the Plan, Monitoring and Coordination Division (PMCD) of the GNHC are integrated with the Department of Planning, Budget and Performance of the MoF.
	The Perspective Planning Division (PPD) and Research and Evaluation Division (RED) of GNHC are integrated with the Office of Cabinet Affairs under the Cabinet Secretariat ( <a href="http://www.bbs.bt/news/?p=175532">http://www.bbs.bt/news/?p=175532</a> ).
<b>Notification number and date: RCSC/LD-63/2022/2265 dated 30 December 2022</b>	
<b>Ministries</b>	
Ministry of Agriculture and Forests	Ministry of Agriculture and Livestock
Ministry of Education	Ministry of Education and Skills Development



Former name of Department / Agency / Ministry	New name and status of Department/ Agency / Ministry
Department of Energy and Department of Geology and Mines (Ministry of Economic Affairs), Department of Forests and Park Services (Ministry of Agriculture and Forests), National Environment Commission Secretariat (NECS) and Bhutan Electricity Authority.	Ministry of Energy and Natural Resources
Ministry of Foreign Affairs	Ministry of Foreign Affairs and External Trade
Ministry of Home and Cultural Affairs	Ministry of Home Affairs
Ministry of Economic Affairs	Ministry of Industry, Commerce and Employment
Ministry of Works and Human Settlements	Ministry of Infrastructure and Transport
Ministry of Finance	Ministry of Finance
Ministry of Health	Ministry of Health
Department of Information Technology and Telecom, Ministry of Information and Communications	The Government Technology Agency (GovTech)
Road Safety and Transport Authority and Department of Information and Media of Ministry of Information and Communications.	Road Safety and Transport Authority as Department of Surface Transport under the Ministry of Infrastructure and Transport.  Department of Information and Media as Department of Media, Creative Industry and Intellectual Property under the Ministry of Industry, Commerce and Employment.
<b>Notification number and date: MoF/FS-18/2022-33/541 dated 2 October 2022</b>	
<b>MoF Departments</b>	
Department of Macroeconomic Affairs	Department of Macro-fiscal and Development Finance
Department of National Budget	Department of Planning, Budget and Performance
Department of Public Accounts	Department of Treasury and Accounts
Department of National Properties	Department of Procurement and Properties
National Environment Commission (NEC) Secretariat	Department of Environment and Climate Change under the Ministry of Energy and Natural Resources
National Commission for Women and Children (NCWC) Secretariat	Subsumed under the Ministry of Education and Skills Development

# ACKNOWLEDGEMENTS

The 2022 Public Expenditure and Financial Accountability (PEFA) assessment and the supplementary assessments on climate and gender were carried out by a team comprising of officials from the Royal Government of Bhutan (RGoB), World Bank staff, and a Consultant.

The RGoB's Oversight Team comprised **Ms. Leki Wangmo**, Hon'ble Acting Secretary, MoF (Chair), **Dasho Phuntsho Rabten**, Eminent Member of the National Council, **Dasho Ganesh Ghimiray**, Member of the National Assembly, **Mr. Tshering Dorji**, Director, DTA, MoF, **Mr. Loday Tsheten**, Director, DMDF, MoF, **Ms. Deki Wangmo**, Director, DPBP, MoF, **Ms. Tshering Choden**, Officiating Director, DPP, MoF, **Mr. Gyeltshen**, Officiating Director General, DRC, MoF, and **Mr. Chencho Tshering**, Chief Planning Officer/PEFA Coordinator, PPD, MoF (Member Secretary). The Assessment Team members comprised **Mr. Tenzin Jamtsho**, Chief Finance Officer, Finance Division, MoF, **Ms. Dechen Choden**, Deputy Chief Finance Officer, DTA, MoF, **Mr. Pema Tobgay**, Senior Planning Officer, PPD, MoF, **Ms. Yeshi Dema**, Assistant Planning Officer, PPD, MoF, **Mr. Karma Jambayyang**, Assistant Auditor General, RAA, **Mr. Karma Wangdi**, Chief Procurement Officer, DPP, MoF, **Mr. Sonam Gyeltshen**, Chief Program Officer, Department of Local Governance and Disaster Management, MoHA, **Mr. Pema Wangdi**, Statistical Officer, DMDF, **Mr. Hemant Gurung**, Senior Finance Officer, DTA, **Ms. Pema Tshomo**, Assistant Collector, DRC, **Mr. Kinzang Uden**, Senior Internal Auditor, MoF, **Mr. Sonam Dorji**, Deputy Chief Budget Officer, DPBP, MoF, **Ms. Tshewang Lhamo**, Senior Program Officer, Department of Education Programs, MoESD, and **Mr. Chhimi Wangchuk**, Environment Officer, Department of Environment and Climate Change, MoENR. The Assessment Team acknowledges and appreciates the excellent cooperation extended by RGoB counterparts who facilitated the entire process and enabled timely completion of the assessment.

The World Bank cross-sectoral task team who contributed to this PEFA PFM assessment report comprised **Mr. Savinay Grover**, Senior Financial Management Specialist and Task Team Leader, **Mr. Rinzin Dorji**, Financial Management Specialist and Co-Task Team Leader, **Mr. Puneet Kapoor**, Senior Financial Management Specialist, **Ms. Melanie Simone Trost Zagatti**, Economist, **Mr. Michel Ragnvald Mallberg**, Senior Public Sector Specialist, **Ms. Tanya Gupta**, Financial Management Specialist, **Ms. Sangeeta Patel**, Procurement Specialist, and **Mr. Mohan Nagarajan**, Senior Economist. The team was supported by **Mr. Peter Jensen**, International Consultant. **Mr. Md. Faruk Hossain**, Operations Assistant, provided administrative and logistical support.

Peer reviewers comprised **Mr. Shouvik Datta**, Senior Program Manager, European Union, New Delhi, **Mr. Gerhard Adam**, Head of Office, Austrian Development Agency, Thimphu, **Mr. Raju Sharan**, PFM Advisor, IMF, **Ms. Holy-Tiana Rame**, Senior Public Finance Specialist, PEFA Secretariat, **Ms. Suraiya Zannath**, Lead Financial Management Specialist, World Bank, **Ms. Patricia Fernandes**, Lead Social Development Specialist, World Bank, **Ms. Sandhya Srinivasan**, Senior Climate Change Specialist, World Bank, **Mr. Chencho Tshering**, Chief Planning Officer/PEFA Coordinator, PPD, MoF. The Assessment Team acknowledges the valuable feedback received from the Peer Reviewers.





**VOLUME I**

**Public Financial Management (PFM)  
Performance Assessment**

# PEFA CHECK



**Bhutan**

## **Public Expenditure and Financial Accountability (PEFA) Performance Assessment Report**

May 2023

The PEFA Secretariat confirms that this report meets the PEFA quality assurance requirements and is hereby awarded the '**PEFA CHECK**'.

PEFA Secretariat  
June 1, 2023

# TABLE OF CONTENTS

<b>PEFA CHECK</b>	<b>viii</b>
<b>ABBREVIATIONS AND ACRONYMS</b>	<b>xv</b>
<b>EXECUTIVE SUMMARY</b>	<b>xvii</b>
<b>1. INTRODUCTION</b>	<b>1</b>
1.1 Rationale and Purpose	1
1.2 Assessment Management and Quality Assurance	2
1.3 Assessment Methodology	4
<b>2. COUNTRY BACKGROUND INFORMATION</b>	<b>7</b>
2.1 Country Economic Situation	7
2.2 Fiscal and Budgetary Trends	11
2.3 Legal and Regulatory Arrangements for PFM	14
2.4 Institutional Arrangements for PFM	15
2.5 Other Key Features of PFM and its Operating Environment	18
<b>3. ASSESSMENT OF PFM PERFORMANCE</b>	<b>19</b>
<b>PILLAR I: Budget reliability</b>	<b>19</b>
PI-1. Aggregate expenditure out-turn	19
PI-2. Expenditure composition out-turn	21
PI-3. Revenue out-turn	23
<b>PILLAR II: Transparency of public finances</b>	<b>25</b>
PI-4. Budget classification	26
PI-5. Budget documentation	28
PI-6. Central government operations outside financial reports	31
PI-7. Transfers to subnational governments	34
PI-8. Performance information for service delivery	38
PI-9. Public access to fiscal information	43
<b>PILLAR III: Management of assets and liabilities</b>	<b>45</b>
PI-10. Fiscal risk reporting	46
PI-11. Public investment management	49
PI-12. Public asset management	55
PI-13. Debt management	59
<b>PILLAR IV: Policy based fiscal strategy and budgeting</b>	<b>64</b>
PI-14. Macroeconomic and fiscal forecasting	64
PI-15. Fiscal strategy	67
PI-16. Medium-term perspective in expenditure budgeting	70
PI-17. Budget preparation process	73
PI-18. Legislative scrutiny of budgets	76

<b>PILLAR V: Predictability and control in budget execution</b>	<b>81</b>
PI-19. Revenue administration	81
PI-20. Accounting for revenue	88
PI-21. Predictability of in-year resource allocation	91
PI-22. Expenditure arrears	97
PI-23. Payroll controls	99
PI-24. Procurement	104
PI-25. Internal controls on non-salary expenditure	110
PI-26. Internal audit	115
<b>PILLAR VI: Accounting and reporting</b>	<b>120</b>
PI-27. Financial data integrity	120
PI-28. In-year budget reports	127
PI-29. Annual financial reports	130
<b>PILLAR VII: External scrutiny and audit</b>	<b>134</b>
PI-30. External audit	134
PI-31. Legislative scrutiny of audit reports	141
<b>4. CONCLUSIONS ON THE ANALYSIS OF THE PFM SYSTEM</b>	<b>149</b>
4.1 Integrated Assessment of PFM Performance	149
4.2 Effectiveness of the Internal Control Framework	154
4.3 PFM Strengths and Weaknesses	155
4.4 Performance Changes since the 2016 PEFA PFM Assessment	163
<b>5. GOVERNMENT PFM REFORM PROCESS</b>	<b>165</b>
5.1 Approach to PFM Reforms	165
5.2 Recent and On-going PFM Reform Actions	166
5.3 Institutional Considerations	168
<b>ANNEX 1: PERFORMANCE INDICATOR SUMMARY</b>	<b>169</b>
<b>ANNEX 2: SUMMARY OF OBSERVATIONS ON THE INTERNAL CONTROL FRAMEWORK</b>	<b>183</b>
<b>ANNEX 3: SOURCES OF INFORMATION BY INDICATOR</b>	<b>187</b>
Annex 3.A: Sources of information	187
Annex 3.B: List of people interviewed	188
Annex 3.C: Sources of information used to extract evidence for scoring each indicator	190
<b>ANNEX 4: CALCULATIONS FOR PI-1 AND PI-2</b>	<b>195</b>
<b>ANNEX 5: CALCULATIONS FOR PI-3</b>	<b>199</b>
<b>ANNEX 6: NOTE ON LOCAL GOVERNMENTS</b>	<b>201</b>

## LIST OF TABLES

Table 0.1: PEFA PFM Assessment 2022 – Summary of Scores	xxii
Table 2.1: Key Economic Indicator and Outlook, FYs 2016/17-2024/25 (% of GDP)	10
Table 2.2: General government fiscal performance, FYs 2016/17-2021/22 (in % of GDP)	12
Table 2.3: Expenditure by Sectors (% of total expenditure, excluding debt service)	13
Table 2.4: Expenditure by Economic Classification (% of total expenditure)	14
Table 2.5: Structure of the public sector – Financial turnover, FY 2021/22 (Nu.)	16
Table 2.6: Financial structure of central government – Budget estimates, FY 2021/22 (Nu.)	16
Table 2.7: Financial structure of central government – Actual expenditures, FY 2021/22 (Nu.)	17
Table 3.1: Minimum scoring requirements for PI-1	19
Table 3.2: Summary of scores for PI-1 and performance table	20
Table 3.3: Total budget and actual expenditure	20
Table 3.4: Minimum scoring requirements for PI-2	21
Table 3.5: Summary of scores for PI-2 and performance table	22
Table 3.6: Minimum scoring requirements for PI-3	23
Table 3.7: Summary of scores for PI-3 and performance table	24
Table 3.8: Total budget and actual revenue	24
Table 3.9: Minimum scoring requirements for PI-4	26
Table 3.10: Summary of scores for PI-4 and performance table	26
Table 3.11: Hydro-related revenues	27
Table 3.12: Minimum scoring requirements for PI-5	28
Table 3.13: Summary of scores for PI-5 and performance table	28
Table 3.14: Budget elements included in the National Budget Report for FY 2022/23	29
Table 3.15: Minimum scoring requirements for PI-6	31
Table 3.16: Summary of scores for PI-6 and performance table	31
Table 3.17: Government non-budgetary funds expenditures and revenues for FY 2021/22	33
Table 3.18: Financial reports of extra-budgetary units	34
Table 3.19: Minimum scoring requirements for PI-7	35
Table 3.20: Summary of scores for PI-7 and performance table	35
Table 3.21: Transfers to LGs in FY 2021/22 (Nu. Million)	37
Table 3.22: Minimum scoring requirements for PI-8	38
Table 3.23: Summary of scores for PI-8 and performance table	39
Table 3.24: Performance audits completed by the Royal Audit Authority (RAA)	42
Table 3.25: Minimum scoring requirements for PI-9	43
Table 3.26: Summary of scores for PI-9 and performance table	43
Table 3.27: Public access to fiscal information	43
Table 3.28: Minimum scoring requirements for PI-10	46
Table 3.29: Summary of scores for PI-10 and performance table	46
Table 3.30: Financial reports of PCs	47

Table 3.31: Minimum scoring requirements for PI-11	49
Table 3.32: Summary of scores for PI-11 and performance table	50
Table 3.33: List of major investment projects	52
Table 3.34: Minimum scoring requirements for PI-12	55
Table 3.35: Summary of scores for PI-12 and performance table	55
Table 3.36: Categories of non-financial assets for FY 2020/21	57
Table 3.37: Minimum scoring requirements for PI-13	59
Table 3.38: Summary of scores for PI-13 and performance table	60
Table 3.39: Minimum scoring requirements for PI-14	64
Table 3.40: Summary of scores for PI-14 and performance table	65
Table 3.41: Minimum scoring requirements for PI-15	67
Table 3.42: Summary of scores for PI-15 and performance table	68
Table 3.43: Minimum scoring requirements for PI-16	70
Table 3.44: Summary of scores for PI-16 and performance table	71
Table 3.45: Minimum scoring requirements for PI-17	73
Table 3.46: Summary of scores for PI-17 and performance table	74
Table 3.47: Budget calendar for the last budget submitted to the legislature	74
Table 3.48: Actual dates of budget submission for the last three completed fiscal years	76
Table 3.49: Minimum scoring requirements for PI-18	77
Table 3.50: Summary of scores for PI-18 and performance table	77
Table 3.51: Actual dates of budget approval for the last three completed fiscal years	80
Table 3.52: Minimum scoring requirements for PI-19	81
Table 3.53: Summary of scores for PI-19 and performance table	82
Table 3.54: Tax appeals for income year 2021	84
Table 3.55: Tax audits planned and executed	86
Table 3.56: Revenue arrears as of 30 June 2022	87
Table 3.57: Minimum scoring requirements for PI-20	88
Table 3.58: Summary of scores for PI-20 and performance table	89
Table 3.59: Information on revenue collection FY 2021/22	90
Table 3.60: Transfer of revenue collection	90
Table 3.61: Revenue accounts reconciliation	91
Table 3.62: Minimum scoring requirements for PI-21	91
Table 3.63 Summary of scores for PI-21 and performance table	92
Table 3.64: Government Bank Accounts of the RGoB	93
Table 3.65: Supplementary Budgets of the RGoB (Nu. Million)	96
Table 3.66: Minimum scoring requirements for PI-22	97
Table 3.67: Summary of scores for PI-22 and performance table	97
Table 3.68: Minimum scoring requirements for PI-23	99
Table 3.69: Summary of scores for PI-23 and performance table	100



Table 3.70: Details of payroll changes (Nu. Million)	102
Table 3.71: Minimum scoring requirements for PI-24	104
Table 3.72: Summary of scores for PI-24 and performance table	105
Table 3.73: Value of procurement undertaken by RGoB during FY 2021/22	107
Table 3.74: Key procurement information to be made available to the public comprises	107
Table 3.75: Complaints are reviewed by a body that	109
Table 3.76: Minimum scoring requirements for PI-25	110
Table 3.77: Summary of scores for PI-25 and performance table	110
Table 3.78: Financial implication of the RAA's audit findings for FY 2020/21	114
Table 3.79: Minimum scoring requirements for PI-26	115
Table 3.80: Summary of scores for PI-26 and performance table	116
Table 3.81: Expenditure coverage of internal audit in FY 2021/22	117
Table 3.82: Revenue coverage of internal audit in FY 2021/22	117
Table 3.83: Completion of programmed internal audits during FY 2021/22	118
Table 3.84: Management responses to internal audit reports	119
Table 3.85: Minimum scoring requirements for PI-27	120
Table 3.86: Summary of scores for PI-27 and performance table	121
Table 3.87: Frequency of reconciliation of government bank accounts outside the GCA	122
Table 3.88: Movements in suspense accounts for FY 2020/21 and FY 2021/22 (Nu. Million)	124
Table 3.89: Movements in advance accounts for FY 2020/21 and FY 2021/22 (Nu. Million)	125
Table 3.90: Minimum scoring requirements for PI-28	127
Table 3.91: Summary of scores for PI-28 and performance table	128
Table 3.92: Timing of in-year budget reports for the last completed fiscal year	129
Table 3.93: Minimum scoring requirements for PI-29	130
Table 3.94: Summary of scores for PI-29 and performance table	131
Table 3.95: Financial reports of Budgetary Central Government (BCG)	132
Table 3.96: Minimum scoring requirements for PI-30	134
Table 3.97: Summary of scores for PI-30 and performance table	135
Table 3.98: Timing of audit reports submission to the legislature	137
Table 3.99: Timing of audit reports submission to the legislature	138
Table 3.100: Supreme Audit Institution (SAI) independence	141
Table 3.101: Minimum scoring requirements for PI-31	142
Table 3.102: Summary of scores for PI-31 and performance table	142
Table 3.103: Timing of audit report scrutiny	144
Table 4.1: Cross-table of PEFA PFM PIs and budgetary outcomes	156
Table 4.2: PEFA PFM PIs and the three budgetary outcomes	159
Table Annex 1.1: Performance indicator summary	169
Table Annex 2.1: Internal control framework	183
Table Annex 3.1: Related surveys and analytical work	187

Table Annex 3.2: List of people interviewed	188
Table Annex 3.3: Sources of information used to extract evidence for scoring each indicator	190
Table Annex 4.1: Budgeted and actual spending, administrative classification, FY 2019/20	195
Table Annex 4.2: Budgeted and actual spending, administrative classification, FY 2020/21	195
Table Annex 4.3: Budgeted and actual spending, administrative classification, FY 2021/22	196
Table Annex 4.4: Results Matrix	196
Table Annex 4.5: Budgeted and actual spending, economic classification, FY 2019/20	197
Table Annex 4.6: Budgeted and actual spending, economic classification, FY 2020/21	197
Table Annex 4.7: Budgeted and actual spending, economic classification, FY 2021/22	197
Table Annex 4.8: Results Matrix	197
Table Annex 5.1: Budgeted and actual revenues for FY 2019/20	199
Table Annex 5.2: Budgeted and actual revenues for FY 2020/21	199
Table Annex 5.3: Budgeted and actual revenues for FY 2021/22	200
Table Annex 5.4: Results matrix for PI-3	200
Table Annex 6.1: LGs and LG members	201
Table Annex 6.2: Entitlement framework and actual practice	205
Table Annex 6.3: Budgeted annual grants to LGs FY 2022/23	207
Table Annex 6.4: Centrally executed budget for LGs in FY 2022/23	207
Table Annex 6.5: Allocation of annual grants to LGs	207
Table Annex 6.6: Budget execution of Dzongkhags and Gewogs in FY 2020/21 and FY 2021/22	209

## LIST OF FIGURES

Figure 3.1: Structure of the general government sector	32
Figure 3.2: Organizational structure of the DRC	83
Figure 3.3: Classification of RGoB bank accounts	121
Figure 3.4: Audit recoveries made by the RAA during FYs 2017-2021	139
Figure 4.1: PI-level scores in the 2016 and 2022 PEFA assessments	163
Figure 4.2: Pillar-level scores in the 2016 and 2022 PEFA assessments	164

## LIST OF BOX

Box 1.1: Assessment Management and Quality Assurance Arrangements	2
---	---

# ABBREVIATIONS AND ACRONYMS

AAR	Annual Audit Report	DMDF	Department of Macro-fiscal and Development Finance
ADA	Austrian Development Agency	DPBP	Department of Planning, Budget and Performance
ADB	Asian Development Bank	DPP	Department of Procurement and Properties
AFS	Annual Financial Statements	DRC	Department of Revenue and Customs
AKRA	Agency Key Result Area	DT	Dzongkhags Tshogdu
APA	Annual Performance Agreement	DTA	Department of Treasury and Accounts
ATR	Action Taken Report	EBU	Extra-Budgetary Unit
BCG	Budgetary Central Government	EFC	Economic and Finance Committee
BIT	Business income tax	e-GP	Electronic Government Procurement
BMT	Budget Monitoring Tool	e-PEMS	Electronic Public Expenditure Management System
BoBL	Bank of Bhutan Limited	EU	European Union
BRF	Budgetary Release Forecast	FAM	Finance and Accounting Manual
CCA	Central Coordinating Agency	FRR	Financial Rules and Regulations
CD	Current Deposit	FY	Fiscal Year
CFA	Consolidated Fund Account	FYP	Five Year Plan
CFS	Cluster Finance Service	GCA	Government Consolidated Account
CIT	Corporate Income Tax	GDP	Gross Domestic Product
CMI	Common Minimum Infrastructure	GFS	Government Finance Statistics
CoA	Chart of Accounts	GFSM	Government Finance Statistics Manual
COFOG	Classification of the Functions of Government	GIMS	Government Inventory Management System
COVID-19	Corona virus Disease 2019	GNH	Gross National Happiness
CS-DRMS	Commonwealth Secretariat-Debt Recording and Management System	GNHC	Gross National Happiness Commission
CSIS	Civil Service Information System	GPMD	Government Performance Management Division
DCDMD	Development Coordination and Debt Management Division	GPMS	Government Performance Management System
DHI	Druk Holding and Investments	GPS	Government Payroll System

GT	Gewogs Tshogde	PEFA	Public Expenditure and Financial Accountability
HR	Human Resource	PIT	Personal Income Tax
IAU	Internal Audit Unit	PFA	Public Finance Act
ICGD	Investment and Corporate Governance Division	PFM	Public Financial Management
IMF	International Monetary Fund	PI	Performance Indicator
IPSAS	International Public Sector Accounting Standards	PLC	Project Letter of Credit
IRB	Independent Review Body	PMM	Property Management Manual
ISSAIs	International Standards of Supreme Audit Institutions	PMO	Prime Minister's Office
KPI	Key Performance Indicator	PMSD	Payment Management Services Division
LC	Letter of Credit	PPD	Policy and Planning Division
LG	Local Government	PPMD	Property and Procurement Management Division
MDF	Multi-Donor Fund	PPR	Procurement Rules and Regulations
MFCC	Macro Fiscal Coordination Committee	RAA	Royal Audit Authority
MFCTC	Macroeconomic Framework Coordination Technical Committee	RAF	Resource Allocation Formula
MoENR	Ministry of Energy and Natural Resources	RAMIS	Revenue Administration Management Information System
MoESD	Ministry of Education and Skills Development	RCSC	Royal Civil Service Commission
MoF	Ministry of Finance	RGoB	Royal Government of Bhutan
MoHA	Ministry of Home Affairs	RGR	Royal Government Revenue
MTDS	Medium-Term Debt Management Strategy	RMA	Royal Monetary Authority
MTFF	Medium-Term Fiscal Framework	RRCO	Regional Revenue and Customs Office
MTMF	Medium-Term Macro Framework	SDU	Service Delivery Unit
MYRB	Multi-Year Rolling Budget	TA	Technical Assistance
NKRA	National Key Results Area	TMD	Treasury Management Division
NSB	National Statistics Bureau	TSA	Treasury Single Account
PAC	Public Accounts Committee	TT	Thromde Tshogde
PC	Public Corporation	ZES	Zhiyog Electronic System

# EXECUTIVE SUMMARY

## **Purpose and management of the assessment**

0.1. The RGoB has been implementing public financial management (PFM) reforms since 2017 under the PFM Reform Strategy 2017-2021. The Reform Strategy was a medium-term effort on part of the RGoB to strengthen areas such as financial management information systems (FMIS), accounting standards for the public and private sectors, procurement, internal controls, budget documents, parliamentary committees on budget and public accounts, and capacity building. The Reform Strategy was prepared based on the PEFA assessment conducted in 2016, which followed the first assessment in 2010. Several achievements have been made under the Reform Strategy, notably the launch of the electronic Public Expenditure Management System (e-PEMS), implementation of the electronic Government Procurement (e-GP) system, creation of Cluster Finance Services (CFS), notification of International Public Sector Accounting Standards (IPSAS), and inclusion of gender and climate aspects in the annual National Budget Report.

0.2. The purpose of the assessment is to provide the RGoB with a current diagnostic of its PFM performance and to measure progress since the previous PEFA PFM assessment (2016). This will facilitate the RGoB and development partners to identify key areas for further PFM strengthening. The results provide the RGoB and development partners with a basis for dialogue on the PFM reform activities as well as concrete inputs to develop a new multi-year PFM Reform Strategy and Action Plan for which development partners can provide implementation support.

0.3. The assessment, based on the 2016 methodology, was undertaken by the RGoB as a self-assessment with technical support from the World Bank. Based on guidance provided through materials and inputs from the PEFA Secretariat, designated RGoB teams prepared initial drafts of the 31 performance indicator (PI) write-ups, including with scores, which were discussed and agreed with the World Bank team, and thereafter presented to and validated at a workshop. The draft report was shared with the RGoB for review and confirmation, which was followed by a peer review and subsequent revisions, and finally subjected to the PEFA Secretariat's PEFA CHECK process.

0.4. The assessment was co-financed by the PFM-Multi-Donor Fund (PFM-MDF) and the World Bank. The PFM-MDF is funded by the European Union (EU) and the Austrian Development Agency (ADA) and administered by the World Bank.

0.5. At the same time as the PFM assessment for 2022, a Climate Responsive Public Financial Management (CRPFM) assessment and a Gender Responsive Public Financial Management (GRPFM) assessment have also been undertaken as self-assessments with technical support from the World Bank, based on the respective PEFA frameworks. The CRPFM and GRPFM assessment reports are published as separate documents/volumes. The two assessments were likewise co-financed by the PFM-MDF and the World Bank.

### Scope, coverage and timing

0.6. The assessment covered the central government-level, which comprises the RGoB's ten ministries, autonomous agencies,<sup>1</sup> constitutional bodies,<sup>2</sup> and extra-budgetary units (EBUs).<sup>3</sup> The 2022 PEFA assessment considers local governments (LGs) – Dzongkhags, Gewogs, and Thromdes – to be Sub-National Governments (SNGs), unlike the 2016 PEFA assessment, which treated LGs as deconcentrated units of the Central Government. In the 2022 PEFA assessment the LGs are assessed only for PI-7 and PI-10.2.<sup>4</sup>

0.7. All 31 PIs of the 2016 PEFA framework were assessed as well as scored in the 2022 assessment. This is based on the coverage and time periods prescribed in the PEFA Secretariat's 2018 Fieldguide.<sup>5</sup> The assessment cut-off date is 30 June 2022, and the last three fiscal years (FYs) covered are thus FYs 2019/20, 2020/21, and 2021/22. The measurement of performance change was done in the context of the 2016 assessment, which was likewise based on the 2016 PEFA framework.

0.8. The assessment work was formally launched with a RGoB workshop on 1 March 2022 and followed with a validation workshop on 18 November 2022. The final PEFA PFM assessment report shall be presented at a dissemination workshop later in 2023. While much of the documentation and information were provided by the MoF, the teams also consulted other stakeholders such as the Royal Audit Authority (RAA), in its function as the supreme audit institution, parliamentary representatives, and other line departments.

### Impact of PFM on budgetary and fiscal outcomes

0.9. The assessment shows that – at the overall level – the RGoB's PFM performance in 2022 averages a PI score close to “B”, which is comparable to 2016, and means that the RGoB's PFM performance continues to be sound and in line with many elements of good international practices. The full set of PI- and dimension-level scores are shown in Table 0.1. 16 indicators scored “A” or “B”, which is high-level and sound performance, respectively; 9 indicators scored C or C+, which is basic level of PFM practices; and 6 indicators scored D or D+ indicating below basic performance. The latter areas relate to expenditure composition outcome, public investment management, fiscal strategy, medium-term expenditure budgeting, expenditure arrears, and payroll controls.

0.10. The RGoB's PFM performance vis-à-vis the three budgetary and fiscal outcomes is fairly supportive in achieving aggregate fiscal discipline and, more so, in ensuring strategic allocation of resources, and is strong in attaining efficient service delivery.

0.11. Aggregate fiscal discipline. The achievement of aggregate fiscal discipline is well-supported by aggregate expenditure out-turn and aggregate revenue out-turn being comparatively close to the budget plans, which indicates orderly budget execution and

---

<sup>1</sup> There are presently 37 autonomous agencies, including, for example, the National Assembly, Gross National Happiness Commission Secretariat, National Statistics Bureau (NSB), Royal University of Bhutan (RUB), and Cabinet Secretariat.

<sup>2</sup> Royal Court of Justice, Anti-Corruption Commission (ACC), Election Commission of Bhutan, Royal Audit Authority (RAA), and Royal Civil Service Commission (RCSC).

<sup>3</sup> The EBUs comprise eight trust funds formally designated as Government Non-Budgetary Funds.

<sup>4</sup> The background for LGs now being considered as SNGs, rather than part of the central government, is explained under PI-7 in Chapter 3.

<sup>5</sup> PEFA Secretariat. 2018. *PEFA Handbook Volume II: PEFA Assessment Fieldguide*. Second Edition. Washington DC.



effective expenditure commitment controls. Operations outside the RGoB's financial reports are limited, budget transparency is relatively high, management of financial assets is well-developed, and the MoF's debt management procedures are effective. Furthermore, the Macroeconomic Framework Coordination Technical Committee (MFCTC) prepares three-year forecasts for selected macroeconomic indicators and forecasts of relevant fiscal indicators (although neither were published in the National Budget Report for FY 2022/23), internal controls of non-salary expenditure are effective, and quarterly budget performance reports are accurate. Some weaknesses in the RGoB's PFM performance though adversely affect the achievement of fiscal discipline, including the absence of adequate monitoring of fiscal risks of public corporations (PCs) and LGs, shortcomings in public investment management, the lack of a mechanism for the MoF to prepare fiscal impact studies of all revenue and expenditure policy proposals, the proposed fiscal deficit target not being adhered to in preparing the FY 2022/23 budget, weaknesses in medium-term expenditure budgeting, and the absence of a system for monitoring expenditure arrears.

0.12. Strategic allocation of resources. The PFM system is moderately supportive in attaining allocative efficiency through planning and using budget resources in line with the RGoB's priorities aimed at meeting policy objectives. The achievement of strategic allocation of resources is supported by several elements, including a robust budget classification system, availability of comprehensive information on public finances, the transparent and rules-based annual grant allocation system for LGs, the clear annual budget calendar which is adhered to, the well-functioning revenue administration performed by the MoF's Department of Revenue and Customs (DRC), and the availability of reliable financial data to prepare the quarterly budget performance reports and the annual financial statements (AFS). Areas requiring strengthening to achieve allocative efficiency include addressing deficiencies in the public investment management procedures, the absence of annual as well as medium-term ministry-level ceilings for the FY 2022/23 budget formulation process, a lack of alignment between entity-level strategic plans and medium-term budgets, and the National Budget Report providing explanations for only some of the changes to expenditure estimates that occur between medium-term budgets.

0.13. During FY 2020-2022, the RGoB's ability to execute the budget in line with original priorities was greatly challenged by the coronavirus disease 2019 (COVID-19) pandemic, which necessitated significant resources to be re-allocated in order to lessen the economic impact on individuals and businesses that followed from frequent lockdowns as well as international and domestic travel restrictions. This resulted in significant deviations in the composition of expenditures and revenues compared to the budget plans, and thus caused several low scores (PI-2.1, PI-2.2 and PI-3.2). However, despite the challenges, the RGoB was at the aggregate level able to maintain revenue and spending relatively close to the original budgets which indicates good institutional capacity.

0.14. Efficient service delivery. The PFM system is most supportive in realizing operational efficiency aimed at achieving the best levels of public services within available resources. The achievement of efficient service delivery is in particular supported by transfers to the LGs being based on transparent and rules-based criteria as well as information on the annual grants being available in a timely manner, the availability of performance information on plans for, resources available to, and the performance of service delivery units (SDUs),

predictability on in-year resource availability, the relatively well-functioning procurement system, internal controls on non-salary expenditure being complied with, the well-performing internal audit function, and the financial, performance and compliance audits conducted by the RAA helping to identify inefficiencies in program implementation and service delivery. However, there are also a few weaknesses that may adversely affect achieving efficient service delivery such as absence of sound public investment management, medium-term budgets diverging from entity-level strategic plans, and a lack of integration of payroll and personnel records.

### **Performance changes since the previous PEFA assessment in 2016**

0.15. The 2022 PEFA assessment identified performance changes since the 2016 assessment (which was also based on the 2016 PEFA framework and hence directly comparable). There have been a number of changes in the PFM performance from 2016 to 2022. This shows at the level of individual PIs, where the scores for 9 PIs performance improved and for 9 PIs performance was maintained, i.e. performance either improved or maintained for 18 out of 30 PIs.<sup>6</sup> The scores for 12 PIs decreased. The changes at the PI-level overall resulted in a slight decrease in the number of high scores (“A”, “B+” and “B”) and more low scores (“C”, “D” and “D+”) in 2022 as compared to 2016, while the number of mid-level PI scores (“C+”) decreased. The latter shows improvement in 3 PIs (to “B” or “B+” for PI-6, PI-18 and PI-26) and decline in 3 PIs (to D+ for PI-2, PI-11 and PI-16) with 2 maintaining performance (PI-28 and PI-29). In other words, the RGoB’s PFM performance continues to be concentrated around elements that either fully or partially meet good international practices. At the same time, there are elements at a basic/below basic level.

0.16. At the pillar-level, there have been notable changes. The performance of three pillars – ‘Transparency of public finances’, ‘Predictability and control in budget execution’, and ‘Accounting and reporting’ – has improved. This is a result of improved financial reporting by EBUs, increased performance information for service delivery, better public access to fiscal information, more frequent revenue account reconciliation, strengthened internal audit, more frequent advance account reconciliation, and more timely preparation and submission of the AFS. However, the performance of four pillars – ‘Budget reliability’, ‘Policy-based fiscal strategy and budgeting’, ‘Management of assets and liabilities’, and ‘External scrutiny and audit’ – has decreased since 2016. The reason for the decline is a mix of factors within and outside RGoB, and include: (i) The COVID-19 pandemic necessitated changes to spending plans and hindered activities; (ii) The MoF did not include fiscal forecasts and medium-term expenditure estimates for outer years in the National Budget Report for FY 2022/23 (FY 2022/23 is the last year of the 12<sup>th</sup> FYP and projections for the first years of the 13<sup>th</sup> FYP were not available till the conclusion of the assessment); and, (iii) The PEFA Secretariat’s Fieldguide (2018), which was not available at the time of the 2016 assessment, provides more granular scoring guidance (e.g., for PI-11, PI-12 and PI-16), which means that lower scores in 2022 (than in 2016) reflect more exact diagnostics rather than lower performance. Also, the fact that LGs in 2022, unlike in 2016, are treated as a separate level of Government, hence PI-7 and PI-10.2 have been scored in 2022, also explains some of the changes in scores.

---

<sup>6</sup> PI-7 was assessed, but not scored, in 2016.

0.17. The overall trajectory of improvement in performance remains positive as the scores of the indicators PI-23, PI-29 and PI-30 are expected to be improved in view of the recent reforms.

### **PFM reform agenda**

0.18. The RGoB's PFM reform activities have since 2010 applied the findings of PEFA assessments as the basis for developing reform strategies and action plans. The MoF's Policy and Planning Division (PPD) spearheads the reform strategy. The PFM Reform Strategy 2017-2021, emanating from the 2016 PEFA assessment, was developed based on a 'basics first' principle to ensure adequate sequencing of reform activities, including by firstly putting in place controls to ensure a minimal level of financial compliance, secondly establishing mechanisms to improve fiscal stability and sustainability, and thirdly introducing systems to promote efficiency and effectiveness in service delivery. The Strategy also noted the need to establish and upgrade adequate IT systems in PFM.

0.19. Recent and on-going PFM reform activities include the:

- revenue area, e.g. developing the Bhutan Integrated Taxation System (BITS), introducing the Bhutan Integrated Revenue Management System (BIRMS), strengthening revenue mobilization, supporting key economic sectors, introducing a value-based Property Tax Act, and enhancing customs management;
- expenditure area, e.g. assessing the planning and budgeting system, initiating public investment management reforms, reviewing the traditional FYP structure versus a multi-year rolling budget, updating the budget classification, improving procurement management, and rolling out the e-PEMS strengthening payroll controls, commitment control system; and,
- financing area, e.g., conceptualizing a Public Financing Policy as well as consolidating grant mobilization.

0.20. The RGoB at highest level is committed to PFM reform. It is led by the PFM-Governance Group (PFM-GG), which is chaired by the Finance Secretary. The PFM-GG, supported by the MoF's PPD, manages and coordinates PFM reform across the Government. The RGoB has systematically built its staff capacity. The 2022 PEFA assessment will inform the areas for the RGoB to develop the next medium-term PFM reform strategy for addressing the weaknesses and gaps identified.

**Table 0.1: PEFA PFM Assessment 2022 – Summary of Scores**

PFM performance indicator		Scoring Method	Dimension Score				Overall Score
			i.	ii.	iii.	iv.	
<b>Pillar I. Budget reliability</b>							
PI-1	Aggregate expenditure out-turn	M1	B				B
PI-2	Expenditure composition out-turn	M1	C	D	A		D+
PI-3	Revenue out-turn	M1	B	D			C
<b>Pillar II. Transparency of public finances</b>							
PI-4	Budget classification	M1	A				A
PI-5	Budget documentation	M1	C				C
PI-6	Central government operations outside financial reports	M2	B	B	B		B
PI-7	Transfers to subnational governments	M2	A	A			A
PI-8	Performance information for service delivery	M2	B	D	A	C	C+
PI-9	Public access to fiscal information	M1	B				B
<b>Pillar III. Management of assets and liabilities</b>							
PI-10	Fiscal risk reporting	M2	D	D	A		C
PI-11	Public investment management	M2	D	C	D	B	D+
PI-12	Public asset management	M2	B	C	C		C+
PI-13	Debt management	M2	A	A	A		A
<b>Pillar IV. Policy-based fiscal strategy and budgeting</b>							
PI-14	Macroeconomic and fiscal forecasting	M2	C	C	C		C
PI-15	Fiscal strategy	M2	D	D	B		D+
PI-16	Medium-term perspective in expenditure budgeting	M2	D	D	D	D	D
PI-17	Budget preparation process	M2	A	D	D		C
PI-18	Legislative scrutiny of budgets	M2	B	B	A	A	B+
<b>Pillar V. Predictability and control in budget execution</b>							
PI-19	Revenue administration	M2	A	B	A	B	B+
PI-20	Accounting for revenue	M1	A	A	A		A
PI-21	Predictability of in-year resource allocation	M2	D	C	A	A	B
PI-22	Expenditure arrears	M1	D*	D			D
PI-23	Payroll controls	M1	D	A	C	C	D+
PI-24	Procurement management	M2	C	B	B	A	B
PI-25	Internal controls on non-salary expenditure	M2	B	A	A		A
PI-26	Internal audit	M1	B	B	A	B	B+
<b>Pillar VI. Accounting and reporting</b>							
PI-27	Financial data integrity	M2	B	C	A	A	B+
PI-28	In-year budget reports	M1	A	C	B		C+
PI-29	Annual financial reports	M1	C	A	C		C+
<b>Pillar VII. External scrutiny and audit</b>							
PI-30	External audit	M1	A	C	A	C	C+
PI-31	Legislative scrutiny of audit reports	M1	B	C	A	A	B+

# 1. INTRODUCTION

1.1. This Chapter describes the process of preparing the PEFA PFM assessment report.

## *1.1 Rationale and Purpose*

1.2. The Royal Government of Bhutan (RGoB) places high priority on good governance, which includes as a key element a well-functioning public financial management (PFM) system. The RGoB has over the past two decades made steady and notable progress in strengthening its PFM system by further strengthening systems and procedures for budget formulation, budget execution, internal control, financial reporting, and external oversight. The stakeholders of the reform comprise not only the Ministry of Finance (MoF) and line ministries and agencies, but also Parliament's Public Accounts Committee (PAC), Economic and Finance Committee (EFC), and the Royal Audit Authority (RAA).

1.3. The RGoB prepared its first PFM reform plan in 2006, which was updated into a PFM Reform Program in 2012 applying the findings of the 2010 PEFA assessment. Based on the findings of the 2016 PEFA assessment, the RGoB – with support from the World Bank – prepared the PFM Reform Strategy 2017-2021. It included a detailed Action Plan that has been operationalised largely through the PFM-MDF 'Strengthening PFM Program', which has been financed by the EU Delegation and ADA, and administered by the World Bank.

1.4. Other development partners have also actively supported the RGoB's PFM reform efforts through technical assistance (TA), including the Asian Development Bank (ADB) and the International Monetary Fund (IMF). The European Union (EU) Delegation, the Austrian Development Agency (ADA), and the World Bank have, in addition to the PFM-MDF Program, also pursued other separate TA support activities.

1.5. The MoF's leadership of PFM reform is reflected in the high-level PFM Governance Group (PFM-GG), established in 2013 with representation from all MoF departments, which develops the PFM reform program and provides oversight and guidance on implementation. Also, the RGoB-chaired Program Coordination Committee (PCC), which comprises the MoF, EU, ADA and the World Bank, monitors implementation of the PFM-MDF Program.

1.6. This is the background based upon which the RGoB in 2021 proposed that a new PEFA PFM assessment (repeat) diagnostic study of its PFM system should be undertaken.

1.7. The CRPFM and GRPFM supplementary assessments were conducted concurrently with the PFM assessment to collect specific information on the extent to which the RGoB's PFM system is climate and gender responsive, respectively, and to enable promoting these aspects going forward based on the assessment findings.

## Objectives of the assessment

1.8. The overall objective of the assessment is, as stated in the Concept Note, to provide the RGoB and stakeholders with a comprehensive PFM Performance Report (PFM-PR) to identify key areas for further strengthening of its PFM systems. The specific objectives of the assessment are to:

- Conduct an analysis of the overall performance of the PFM system, processes, and institutions, and measuring progress against the previous assessment conducted in 2016.
- Based on the findings of the PEFA assessment, facilitate preparation of the RGoB’s PFM Reform Strategy and Action Plan for the next five years.
- Provide the RGoB and development partners with a basis for dialogue on further PFM reforms and to enable updating the PFM Reform Program and subsequent monitoring.

## 1.2 Assessment Management and Quality Assurance

1.9. The PEFA PFM assessment was carried out as an RGoB self-assessment and with its full ownership, while technical support was provided by the World Bank. The assessment was undertaken by teams established by and comprised RGoB officials who were coordinated by a MoF nodal person for inter-departmental coordination. Data collection, analysis, scoring and drafting were done by the RGoB teams with support from the World Bank. The assessment commenced in March 2022 amidst the COVID-19 pandemic lockdown and during the initial months, the assessment was managed virtually with continuous online meetings with the assessment teams and review of initial drafts. Physical missions by the World Bank happened in September and November 2022.

1.10. The PEFA PFM assessment was initiated by the World Bank in collaboration with the RGoB. The technical team was established by the World Bank. The MoF, through the Oversight Team, provided high-level coordination as well as reviewed and approved the Concept Note and, supported by the Assessment Teams, appraised the draft report.

1.11. The management and quality assurance arrangements are presented below.

### Box 1.1: Assessment Management and Quality Assurance Arrangements

#### PEFA PFM Assessment Management Organization

- Oversight Team – Chair and Members:
  - Ms. Leki Wangmo, Hon’ble Acting Secretary, MoF (Chair)
  - Dasho Phuntsho Rabten, Eminent Member of the National Council
  - Dasho Ganesh Ghimiray, Member of the National Assembly
  - Mr. Tshering Dorji, Director, DTA, MoF
  - Mr. Loday Tsheten, Director, DMDF, MoF
  - Ms. Deki Wangmo, Director, DPBP, MoF
  - Ms. Tshering Choden, Officiating Director, DPP, MoF
  - Mr. Gyeltshen, Officiating Director General, DRC, MoF
  - Mr. Chencho Tshering, Chief Planning Officer/PEFA Coordinator, PPD, MoF (Member Secretary)
- Assessment Manager:
  - Mr. Hisham Waly, Practice Manager, World Bank
- Assessment Team Leaders and Team Members: The assessment was carried out by a core team comprising officials from the RGoB, the World Bank, and a Consultant. The MoF was the lead counterpart and coordinator within the RGoB, supported by officials from various Ministries



and Departments and the technical teams of the World Bank that provided overall guidance on the assessment. The Assessment Team included the following:

**I. World Bank:**

- Mr. Savinay Grover, Senior Financial Management Specialist and Task Team Leader
- Mr. Rinzin Dorji, Financial Management Specialist and Co-Task Team Leader
- Mr. Puneet Kapoor, Senior Financial Management Specialist
- Mr. Michel Ragnvald Mallberg, Senior Public Sector Specialist
- Mr. Mohan Nagarajan, Senior Economist
- Ms. Melanie Simone Trost Zagatti, Economist
- Ms. Tanya Gupta, Financial Management Specialist
- Ms. Sangeeta Patel, Procurement Specialist

**II. RGoB:**

- Mr. Tenzin Jamtsho, Chief Finance Officer, Finance Division, Division of Support Services, MoF
- Ms. Dechen Choden, Deputy Chief Finance Officer, DTA, MoF
- Mr. Pema Tobgay, Senior Planning Officer, PPD, MoF
- Ms. Yeshi Dema, Assistant Planning Officer, PPD, MoF
- Mr. Karma Jambayyang, Assistant Auditor General, RAA
- Mr. Karma Wangdi, Chief Procurement Officer, DPP, MoF
- Mr. Sonam Gyeltshen, Chief Program Officer, Department of Local Governance and Disaster Management, Ministry of Home Affairs (MoHA)
- Mr. Pema Wangdi, Statistical Officer, DMDF, MoF
- Mr. Hemant Gurung, Senior Finance Officer, DTA, MoF
- Ms. Pema Tshomo, Assistant Collector, DRC, MoF
- Mr. Kinzang Uden, Senior Internal Auditor, MoF
- Mr. Sonam Dorji, Deputy Chief Budget Officer, DPBP, MoF
- Ms. Tshewang Lhamo, Senior Program Officer, Department of Education Programs, MoESD
- Mr. Chhimi Wangchuk, Environment Officer, Department of Environment and Climate Change, MoENR

**Review of Concept Note**

- Date of reviewed draft Concept Note: 23 November 2021.
- Invited reviewers:
  - Mr. Shouvik Datta, Senior Program Manager, European Union, New Delhi
  - Mr. Gerhard Adam, Head of Office, Austrian Development Agency, Thimphu
  - Ms. Suraiya Zannath, Lead Financial Management Specialist, World Bank
  - Mr. Sonam Tobgyel, Chief Accounts Officer, DTA, MoF, RGoB
  - Ms. Maria Beatriz Orlando, Lead Social Development Specialist, World Bank
  - Ms. Sandhya Srinivasan, Senior Climate Change Specialist, World Bank
  - PEFA Secretariat
- Reviewers who provided comments:
  - Mr. Shouvik Datta, Senior Program Manager, European Union, New Delhi
  - Mr. Gerhard Adam, Head of Office, Austrian Development Agency, Thimphu
  - Ms. Suraiya Zannath, Lead Financial Management Specialist, World Bank
  - Ms. Maria Beatriz Orlando, Lead Social Development Specialist, World Bank

- Ms. Sandhya Srinivasan, Senior Climate Change Specialist, World Bank
- PEFA Secretariat
- Date of final Concept Note: 8 December 2021

#### **Review of the Assessment Report**

- Date of reviewed draft report: 20 January 2023
- Invited reviewers:
  - Mr. Shouvik Datta, Senior Program Manager, European Union, New Delhi
  - Mr. Gerhard Adam, Head of Office, Austrian Development Agency, Thimphu
  - Mr. Raju Sharan, PFM Advisor, IMF
  - Ms. Suraiya Zannath, Lead Financial Management Specialist, World Bank
  - Mr. Chencho Tshering, Chief Planning Officer/PEFA Coordinator, PPD, MoF
  - Ms. Patricia Maria Fernandes, Lead Social Development Specialist, World Bank
  - Ms. Sandhya Srinivasan, Senior Climate Change Specialist, World Bank
  - PEFA Secretariat
- Reviewers who provided comments:
  - Mr. Shouvik Datta, Senior Program Manager, European Union, New Delhi
  - Mr. Gerhard Adam, Head of Office, Austrian Development Agency, Thimphu
  - Mr. Raju Sharan, PFM Advisor, IMF
  - Ms. Suraiya Zannath, Lead Financial Management Specialist, World Bank
  - Mr. Chencho Tshering, Chief Planning Officer/PEFA Coordinator, PPD, MoF
  - Ms. Patricia Maria Fernandes, Lead Social Development Specialist, World Bank
  - Ms. Sandhya Srinivasan, Senior Climate Change Specialist, World Bank
  - PEFA Secretariat
- Final report sent to PEFA Secretariat incorporating their comments and suggestions on 1 June 2023
- PEFA Check received on 2 June 2023
- Final report endorsed/approved by RGoB: 30 June 2023
- Publication of the final report: 1 July 2023

### **1.3 Assessment Methodology**

#### Scope and Coverage of the assessment

1.12. The assessment is based on the 2016 PEFA PFM framework using all 31 performance indicators (PIs). The assessment scope covered the operations of the Central Government, which covers all budgetary bodies of the RGoB, including ten ministries, 37 autonomous agencies, and 5 constitutional bodies, including the RAA. Relevant parliamentary committees are also covered. However, unlike the 2016 PEFA assessment, this assessment does not cover the Local Governments (Dzongkhags, Gewogs, and Thromdes), which is explained under PI-7.

#### When performance is assessed

1.13. The assessment was carried out using the most recently available data based on the PEFA guidance. The cut-off date was 30 June 2022, and the last three fiscal years covered thus were FY 2019/20, FY 2020/21, and FY 2021/22. The last budget submitted to the Parliament, and thus considered for the assessment, was for FY 2022/23, while the last audited AFS

considered were for FY 2021/22. Deviations from the period coverage as recommended under the PEFA framework are explicitly stated under the relevant PIs.

#### Sources of information

1.14. The assessment applies information and data, required for each dimension as per the PEFA guidance, as available from government ministries and other budgetary bodies, and, where relevant, also evaluations and studies prepared by development partners. This thus includes legislative and regulatory documents, relevant five-year plans (FYPs), annual National Budget Reports, annual financial statements (AFS), internal audit reports, and external audit reports. The information and data applied has been validated through specific queries and interviews with relevant stakeholders,<sup>7</sup> including assessment missions undertaken by the World Bank in September 2022 and November 2022. The latter included a validation workshop where all assessments and scores were discussed and verified.

---

<sup>7</sup> Consultations included the private sector through meetings with representatives of the Bhutan Chamber of Commerce & Industry (BCCI).



## 2. COUNTRY BACKGROUND INFORMATION

### 2.1 Country Economic Situation

#### Country Context

2.1. Bhutan's pursuit of economic growth and development is inspired by the principle of Gross National Happiness (GNH) as the guiding principle of development. Bhutan is a small, landlocked country, deep in the eastern Himalayas between India and China. Its population of about 735,000 is scattered across steep mountain slopes and valleys, making Bhutan one of the most sparsely populated countries in the world. With forest coverage exceeding 70%, Bhutan is one of the few countries in the world that absorbs more greenhouse gas emissions than it produces. Self-sufficiency, preservation, and conservation of the environment and culture remain at the heart of Bhutan's approach to development.

2.2. Bhutan has seen rapid development progress and economic growth in the last two decades. Annual real GDP growth averaged 7% between 1980 and 2019, mainly driven by public sector-led hydropower development and strong performance in the services sector, including tourism. With Gross National Income (GNI) per capita of US\$3,153 in 2021, the country is approaching the threshold for upper-middle-income countries. Results from the 2022 Bhutan Living Standard Survey suggest that an estimated 12.4% of the population lives below the national poverty line, with poverty being more prevalent in rural areas and significant disparities across Dzongkhags.<sup>8</sup> Hydropower projects have helped the Government create fiscal space for investing in human and physical capital, allowing Bhutan to significantly improve services, education, and health. The percentage of households with access to improved water source is 100%, and at least 99.2% of households have access to improved sanitation. Access to electricity is almost universal.

2.3. Prior to the pandemic, Bhutan enjoyed a track record of macro-fiscal stability. Substantial hydropower revenues from the sale of electricity to India and external grants contributed to a strong fiscal position, with fiscal deficits averaging 2.21% GDP from FY 2014/15 to FY 2018/19.<sup>9</sup> Non-hydropower public and publicly guaranteed (PPG) debt has remained within the threshold under the Government's Public Debt Policy of 35% of GDP, with most owed to external creditors on concessional terms and domestic lenders. Inflation was moderate, averaging 6.35% from FY 2010/11 to FY 2018/19. The large structural trade deficit, resulting from large-scale hydropower development, has been mainly financed by capital flows from India for hydropower projects through a combination of grants and loans. International reserves remained at comfortable levels.

2.4. While large investments in hydropower resulted in substantial external debt accumulation, risks of debt distress were mitigated by a bilateral agreement with India, the main creditor of the country's external debt. Total external PPG debt has increased significantly over the past two decades, with hydropower accounting for 72% of Bhutan's total external PPG debt stock of 118.8% of GDP in FY 2021/22. Hydropower loans are supplied by India and on-lent to public corporations (PCs), which carry out the financing and management of hydropower infrastructure on behalf of the RGoB. Debt service is covered by the revenues

<sup>8</sup> National Statistics Bureau (NSB). 2022. *Poverty Analysis Report*. Thimphu.

<sup>9</sup> The fiscal year is from July to June.

from hydropower exports, which more than offset debt service payments. Furthermore, there is no exchange rate risk as electricity receipts and debt service payments are both denominated in Indian Rupees, to which the Bhutanese Ngultrum is pegged.

2.5. The COVID-19 pandemic caused major disruptions to economic activity and impacted livelihoods. Bhutan has been successful in fighting the pandemic, thanks to stringent containment measures and high vaccination rates. But it came with high economic costs as well. The border remained closed from 6 March 2020 to 23 September 2022. Economic growth contracted by 2.3% and 3.3% in FY 2019/20 and FY 2020/21, respectively. While the revenue from the state-led hydropower sector cushioned the impact of the crisis on economic growth and fiscal accounts, the non-hydro industry and services sectors were adversely affected by supply chain disruptions, shortages of foreign labor, and the sharp fall in tourism-related activity. The unemployment rate increased from 2.7% in 2019 to 4.8% in 2021, and the youth unemployment rate, which was already high before the pandemic, doubled from 11.9% in 2019 to 20.9% in 2021.

2.6. Macroeconomic vulnerabilities have increased amid the pandemic and global ramifications of the war in Ukraine. While economic activity has gradually recovered in FY 2021/22, supported by the easing of strict social and domestic mobility restrictions, high vaccination rates, and continued fiscal support to boost economic activity, inflation has remained elevated in FY 2021/22, averaging 5.9%, owing to continued supply disruptions and higher commodity prices. The trade balance deteriorated significantly in FY 2021/22 due to an increase in goods imports, in part due to higher commodity prices. As a result, gross international reserves declined rapidly in FY 2021/22, limiting external buffers. The COVID-19 relief measures for individuals and businesses and subdued revenue performance have resulted in high fiscal deficits from FY 2020/21. Fiscal risks increased due to vulnerabilities in an already weak financial sector with elevated non-performing loans (standing at 9.8% in June 2022), given that about 60% of assets are controlled by the public sector.

2.7. The macroeconomic outlook has become more uncertain with the prevailing uncertainties in the global economy, including the war in Ukraine. The economy is expected to grow by 4.7% in FY 2022/23, supported by the broader reopening of borders in September 2022 with positive spillovers on the non-hydro industry and services sector. While output is returning to pre-pandemic levels, slower domestic demand recovery due to high inflation and lower hydro investments are expected to decelerate growth in FY 2022/23. Medium-term growth is expected to remain below pre-COVID-19 growth due to delays in hydropower projects, which otherwise would help strengthen fiscal and external balances in the medium term.<sup>10</sup> As a result, the current account and fiscal deficit are expected to moderate only gradually over the medium term, supported by a lower trade deficit and expenditure rationalization. The outlook is subject to significant downside risks. Higher commodity prices due to the pandemic and geopolitical tensions could exert further pressure on the country's

---

<sup>10</sup> The capacity of hydropower generation is expected to approximately double with the onboarding of four hydropower projects. The commissioning of Puna II hydro project (1,020 MW) has been delayed from 2022/23 to 2024/25, and Puna I (1,200 MW) from 2024/25 and 2027/28. The Kholongchhu hydro project (600 MW) has been delayed indefinitely due to the discontinuation of the first joint venture modality between the Druk Green Power Corporation (DGPC) and Satluj Jal Vidyut Nigam Limited (SJVNL), an Indian state enterprise.

external balance and international reserves, and weigh on external demand and tourism travel, globally and in India (given significant tourism and trade linkages).

## **Economic Challenges and Government-Wide Reforms**

### ***Limited fiscal space***

2.8. In the absence of reforms, Bhutan's resource envelope is expected to contract in the medium term. Total revenues (including grants) averaged about 30% of GDP in the past six fiscal years (FY 2016/17-FY 2021/22), of which external budgetary grants from India and official development assistance (ODA) accounted for around one-third of total revenues.<sup>11</sup> Bhutan is set to graduate from the Least Developed Country (LDC) status by 2023, which is expected to result in declining ODA. The decline in ODA grants is unlikely to be met by increased revenue collection, as the tax-to-GDP ratio has remained relatively flat at 15% of GDP prior to the COVID-19 pandemic, and the enhancement of tax bases beyond the hydropower sector has been challenging. Non-hydro revenue generation is constrained by the limited size of the domestic private sector.<sup>12</sup> Indirect tax collection relies on a sales tax, whose revenue generation is constrained by its narrow tax base and complex and distortionary exemptions, with future revenue growth potential being limited.

2.9. At the same time, the country has substantial unmet spending needs. Total public spending is high and averaged 34% of GDP over the last six fiscal years (FY 2016/17-FY 2021/22). Bhutan has ambitious development goals, outlined in the draft Bhutan's Long Term Plan, and aims to reach high-income status (developed country) by 2034. The necessary transformation to achieve this goal is guided by the vision to pursue "a dynamic, prosperous, inclusive and sustainable economy" by developing a healthy, educated, and skilled workforce, and by investing in adequate physical and digital infrastructure. Reaching these goals will require ramping up spending on priority sectors.

2.10. Reforms to consolidate expenditure and increase domestic revenue are needed to maintain fiscal sustainability. Given the limited fiscal space, the RGoB has reprioritized and rationalized expenditure after the Mid-Term Review of the 12<sup>th</sup> FYP. The RGoB remains committed to the Goods and Services Tax (GST), which is part of a broader tax reform agenda to generate sustainable government revenue by moving toward a simple and broad-based tax system. A comprehensive review of tax policy and tax administration is underway.

### ***Nascent private sector and lack of job opportunities***

2.11. While the hydro sector has provided a reliable source of growth, it did not create many jobs, which remain concentrated in agriculture and the public sector. While the hydropower sector accounts for about one-fifth of GDP, it employs only 1% of the labor force. Over half of Bhutan's labor force remains employed in agriculture, primarily of subsistence nature. Non-hydropower sector growth has been constrained by the country's geography and challenging investment climate, including high trade costs and a small domestic market. Economic activity is concentrated in urban centers and a few industrial and agricultural regions close to the border with India. A large PCs sector and limited access to finance are additional constraints to private sector growth.

---

<sup>11</sup> External budgetary grants include grant receipts from ODA, accounting for about 30% of total external budgetary grants. The remainder is received from the Government of India, to cover spending under the FYP.

<sup>12</sup> For instance, the Druk Green Power Corporation (DGPC), the utility company that operates and maintains hydropower assets, accounts for about one-third of corporate income tax (CIT) collection.



2.12. Fostering private sector growth in non-hydropower is therefore critical to job creation in Bhutan. Developing a vibrant private sector to generate jobs and diversify the economy, while sustaining Bhutan's natural environment, will be crucial to build further resilience and sustain inclusive development.

2.13. While the development of the private sectors has been at the core of the national development policy, there are number of challenges mainly access to finance, lack of market, lack of resources in terms of skilled labor and infrastructure.

2.14. Over the years, considerable efforts have been made to improve the ease of doing business, mainly catering to the private sector by formulating, for example, the Economic Development Policy 2016, FDI policy, and E-commerce regulation.

**Table 2.1: Key Economic Indicator and Outlook, FYs 2016/17-2024/25 (% of GDP)**

Indicators	Actual					Provisional	Estimates		
	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25
Gross domestic product (US\$ million at current prices)	2,294	2,509	2,452	2,421	2,442	2,548	2,543	2,774	3,051
Consumer price index (% change)	4.3	3.7	2.8	3.0	8.2	5.9	3.4	3.3	3.1
Real annual growth rate	6.3	3.8	4.4	(2.3)	(3.3)	4.5	4.7	4.0	5.5
Electricity/water	(0.6)	(9.2)	(2.5)	19.1	9.2	(3.8)	1.2	4.3	9.1
<b>Balance of Payments (% GDP)</b>									
Goods exports	24.2	24.0	24.8	26.7	29.5	30.7	30.0	28.2	27.7
o.w. hydropower exports	7.7	7.4	6.3	8.6	15.7	12.3	11.5	9.7	9.5
Goods imports	44.6	40.6	41.2	39.7	36.4	54.2	50.0	41.2	34.7
Trade balance (goods and services)	(22.6)	(18.0)	(18.4)	(16.7)	(11.7)	(31.0)	(24.9)	(16.6)	(9.7)
Current account balance	(22.7)	(18.4)	(20.5)	(15.8)	(11.9)	(33.0)	(26.2)	(19.0)	(10.5)
Reserve (US\$)	1,104.1	1,111.3	1,344.8	1,340.3	1,335.5	840.6	498.3	309.7	291.8
Exchange rate, period average (Nu/US\$)	66.4	65.2	70.5	72.5	73.7	75.4	80.7	79.8	79.8
<b>Public Finance (as % of GDP)</b>									
Domestic Revenues	19.5	22.6	20.1	20.6	19.9	20.3	19.9	19.3	18.8
o.w. hydropower revenues	5.3	6.4	5.6	8.8	10.6	9.1	8.6	6.5	
External Grants	8.5	9.1	5.9	9.1	8.0	6.6	7.2	4.3	7.3
Government of India	6.5	6.9	3.7	6.5	5.7	5.1	5.8	2.7	4.2
Other donors	2.0	2.2	2.2	2.6	2.3	1.5	1.5	1.6	3.1
Internal grants	-	-	0.2	0.3	0.3	0.2	-	0.1	0.2
Other receipts	(0.0)	0.2	(1.8)	1.1	5.0	-	-	-	-
Expenditures	32.8	34.5	25.5	32.8	33.1	36.1	36.0	28.9	28.3
o.w. NRF activities (DGRK)	-	-	-	1.4	6.5	-	-	-	-
Advance/Suspense (net)	0.0	(1.0)	0.4	0.2	(0.1)	-	-	-	-
Fiscal Balance	(4.8)	(1.6)	(1.6)	(1.9)	(6.2)	(9.0)	(8.8)	(5.2)	(2.0)
Total Public Debt	111.7	113.4	106.5	122.8	132.4	133.4	132.2	124.5	112.4

Indicators	Actual					Provisional	Estimates		
	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25
External PPG debt	105.1	108.4	103.6	121.6	122.9	118.8	118.5	110.7	99.8
o.w hydropower debt	81.3	80.6	79.2	90.8	90.2	85.5	78.4	70.7	62.7
Domestic debt	6.6	5.0	2.9	1.1	9.5	14.6	13.7	13.8	12.6
<b>Monetary Indicators</b>									
Growth of M2	31.5	10.4	5.6	19.3	24.4	7.5	10.0	12.7	9.0
Private sector credit growth (%)	13.9	18.8	20.5	13.8	6.9	10.6	16.7	8.6	10.6
Total credit growth (%)	29.5	17.9	13.1	7.6	17.0	18.4	9.1	10.3	4.1

Source: MFCC (as of November 2022).

## 2.2 Fiscal and Budgetary Trends

### Fiscal performance

2.15. The fiscal deficit widened in the last three fiscal years (FY 2019/20-FY 2021/22), on account of COVID-19 related expenditures and subdued revenue performance. The increase in spending was primarily driven by salaries and wages (reflecting the salary increase in FY 2019/20 from the Pay Revision Act 2019), as well as COVID-19 relief measures, including a partial interest waiver and income support through temporary income transfers to support businesses and individuals (amounting to 1.4% and 6.5% of GDP in FY 2019/20 and FY 2020/21). Capital expenditures also increased, reflecting continued fiscal support to boost economic activity through the frontloading and acceleration of some 12<sup>th</sup> FYP activities. Total revenues declined (as a share of GDP), despite an increase in hydropower revenues. Tax revenues declined to 11.5% of GDP in FY 2020/21, their lowest level since FY 2008/09, reflecting the slowdown in the non-hydro economy. Non-tax revenues were boosted by the one-off profit transfers from the commissioning of the Mangdechhu hydropower plant (averaging 2.8% of GDP in the last three fiscal years). External grants (which mainly cover capital expenditures under the 12th FYP) remained relatively stable, averaging 30% of total revenue. As a result, the fiscal deficit increased from 1.6% of GDP in FY 2019/20 to 9% in FY 2021/22. The financing needs have been covered by external borrowing from multilateral and bilateral partners on concessional terms and an increase in domestic borrowing.

2.16. Total PPG debt increased to 133.4% of GDP in FY 2021/22, but risks are considered moderate as the majority of external debt is linked to hydro project loans and tied to future proceeds. Total PPG debt increased from 106.5% of GDP in FY 2018/19 to 133.4% in FY 2021/22, driven by an increase in external and domestic debt. External debt amounted to 118.8% of GDP in FY 2021/22, of which hydropower debt accounted for about 72%. External hydropower debt increased with higher investments. External non-hydropower debt and domestic debt increased, reflecting higher financing needs as well as the government's objective to develop the domestic debt market through the issuance of government bonds. In line with the 2022 joint IMF-World Bank Debt Sustainability Analysis (DSA), the first national DSA (published in March 2022), assessed Bhutan's risk of overall and external debt distress as moderate, as the bulk of the debt is linked to hydropower project loans from India, the export revenues from which should be more than sufficient to fund their debt service payments.

### Allocation of resources

2.17. Strategic allocation of resources is guided by FYPs, which are translated into sectoral strategies, programs, and annual budgets. Spending on social services (health and education)

and economic services (including renewable natural resources, infrastructure development and energy) each accounted for about 30% of total expenditure in the last three fiscal years (Table 2.3). Education, renewable natural resources (including agriculture), and health are the largest sectors in terms of expenditure allocation, averaging 19%, 13%, and 11% of the total expenditure in the last three fiscal years. General public services (excluding debt service) accounted for about 30%. The COVID-19 pandemic resulted in a change in the sectoral allocation of resources. While the share of the education sector declined from FY 2020/21, general public services increased in the same year, reflecting the COVID-19 relief measures (interest waiver and income support through temporary income transfers to businesses and individuals).

2.18. Recurrent spending, which needs to be covered by internal resources (see existing budget rules in Section 5.2 on Fiscal Strategy), accounted for about 60% of total expenditure from FY 2019/20 to FY 2021/22. Compensation of employees, accounting for about 33% of total expenditure, has increased significantly over the past three fiscal years, reflecting the salary increase in FY 2019/20, as well as COVID-19 relief measures in FY 2019/20 and FY 2020/21. In contrast, goods and services and subsidies and transfers have declined as the Government strove to rationalize other recurrent expenditure. The share of capital spending increased in FY 2021/22, reflecting the frontloading and acceleration of some 12<sup>th</sup> FYP activities.

**Table 2.2: General government fiscal performance, FYs 2016/17-2021/22 (in % of GDP)**

	Actual							Estimate	Projection
	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23f	FY 2023/24f	FY 2024/25f
<b>Total revenues and grants</b>	28.0	31.9	24.3	31.1	33.2	27.1	27.1	23.7	26.3
<b>Domestic revenues</b>	19.5	22.6	20.1	20.6	19.9	20.3	19.9	19.3	18.8
Tax revenue	14.2	16.6	15.7	13.0	11.5	13.5	13.2	13.6	13.5
Taxes on income, profits and capital gains	6.8	7.3	7.0	6.2	5.4	6.9	6.8	6.6	6.4
Taxes on Property	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Taxes on goods and services	5.7	6.4	5.6	3.9	3.0	3.9	3.6	3.6	3.6
Taxes on international trade and transactions	0.4	0.5	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Other taxes	1.3	2.4	2.8	2.5	2.7	2.3	2.5	2.9	3.1
Non-tax revenue	5.3	6.0	4.4	7.7	8.4	6.9	6.7	5.7	5.3
Royalty	1.2	2.3	2.7	2.5	2.7	2.3	2.4	2.9	3.0
Dividend	2.7	2.5	2.0	2.6	1.7	2.1	2.1	2.1	1.9
<b>Other receipts</b>	(0.0)	0.2	(1.8)	1.1	5.0	0.9	-	-	-
o.w. NRF receipts (DGRK)	-	-	-	3.1	4.9	0.0	-	-	-
<b>Grants</b>	8.5	9.1	6.1	9.4	8.3	6.8	7.2	4.4	7.5
Government of India	6.5	6.9	3.7	6.5	5.7	5.1	5.8	2.7	4.2
Other donors	2.0	2.2	2.2	2.6	2.3	1.5	1.5	1.6	3.1
Internal Receipts (trust funds)	-	-	0.2	0.3	0.3	0.2	-	0.1	0.2
<b>Total expenditure</b>	32.8	33.5	25.9	33.1	39.3	36.1	36.0	28.9	28.3
Current expenditure	15.8	16.8	16.1	20.3	24.2	18.1	17.2	16.6	15.7

	Actual							Estimate	Projection
	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23f	FY 2023/24f	FY 2024/25f
Compensation of Employees	6.2	6.0	6.7	10.7	15.8	9.1	8.7	8.5	8.2
o.w. NRF activities (DGRK)	-	-	-	1.4	6.5	-	-	-	-
Purchases of Goods & Services	4.2	4.1	4.1	4.2	3.4	3.1	2.5	2.2	2.0
Current Subsidies & Transfers	2.7	4.0	2.7	3.0	2.0	1.9	1.9	1.7	1.5
Interest Payments	1.3	1.3	0.9	0.5	1.0	1.7	1.2	1.4	1.6
Social Benefits	1.0	1.0	1.1	1.4	1.3	1.6	1.2	1.1	1.0
Other Expenses	0.5	0.4	0.5	0.5	0.6	0.7	1.7	1.6	1.4
Capital expenditure (codes 41-63)	17.0	17.6	9.4	12.6	15.3	18.1	18.7	12.4	12.6
Advance/Suspense (Net)	0.0	(1.0)	0.4	0.2	(0.1)	-	-	-	-
<b>Overall balance</b>	<b>(4.8)</b>	<b>(1.6)</b>	<b>(1.6)</b>	<b>(1.9)</b>	<b>(6.2)</b>	<b>(9.0)</b>	<b>(8.8)</b>	<b>(5.2)</b>	<b>(2.0)</b>
<b>Financing</b>	<b>4.8</b>	<b>1.6</b>	<b>1.6</b>	<b>1.9</b>	<b>6.2</b>	<b>9.0</b>	<b>8.8</b>	<b>5.2</b>	<b>2.0</b>
Net lending	(1.3)	(1.3)	(0.8)	(0.4)	(0.4)	(1.9)	(1.3)	(0.7)	(4.3)
Recoveries	-	-	0.1	0.1	0.9	2.0	1.9	1.9	4.6
On-lending	1.3	1.3	0.9	0.5	1.4	0.1	0.6	1.2	0.2
Foreign (net)	2.3	2.2	0.6	2.0	0.8	2.2	1.7	(1.2)	(4.9)
Borrowing	3.5	3.2	2.0	3.0	2.9	5.1	4.5	1.4	0.3
Repayment	1.2	1.1	1.3	1.0	2.1	2.9	2.8	2.6	5.2
Domestic (net)	3.8	0.7	0.2	(0.5)	5.8	4.9	5.9	5.7	2.5
Borrowing	3.8	0.7	0.2	(0.5)	5.8	4.9	5.9	11.0	7.2
Repayment	-	-	0.0	-	0.0	0.0	-	5.3	4.7

Source: MFCC Update (November 2022).

**Table 2.3: Expenditure by Sectors (% of total expenditure, excluding debt service)**

Indicators	Actual	Actual	Actual
	FY 2019/20	FY 2020/21	FY 2021/22
<b>Social Services</b>	<b>34</b>	<b>26</b>	<b>28</b>
Education Services	22	17	16
Health Services	11	9	11
<b>Economic Services</b>	<b>26</b>	<b>27</b>	<b>35</b>
Energy Services	0	0	0
Renewable Natural Resources Services	13	12	13
Mining, Manufacturing, and Industries Services	0	0	0
Transport and Communication Services	6	6	8
Other Economic Services	2	3	7
Housing and Public Amenity Services	5	4	6
<b>General Public Services</b>	<b>29</b>	<b>39</b>	<b>27</b>
<b>Religion &amp; Culture Services</b>	<b>5</b>	<b>4</b>	<b>4</b>
<b>Public Order and Safety Services</b>	<b>6</b>	<b>5</b>	<b>5</b>
<b>Total (excluding debt service)</b>	<b>100</b>	<b>100</b>	<b>100</b>

Note: Administrative heads are not equivalent to sectors in Bhutan as sectors are combination of one or more administrative heads.

Source: Annual Financial Statements.

**Table 2.4: Expenditure by Economic Classification (% of total expenditure)**

Indicators	Actual	Actual	Actual
	FY 2019/20	FY 2020/21	FY 2021/22
<b>Current expenditure</b>	<b>61</b>	<b>61</b>	<b>50</b>
Compensation of Employees	28	24	5
o.w. NRF activities (DGRK)	4	16	
Purchases of Goods & Services	13	9	9
Current Subsidies & Transfers	9	5	5
Interest Payments	1	3	5
Social Benefits	4	3	4
Other Expenses	2	2	2
<b>Capital expenditure (codes 41-63)</b>	<b>38</b>	<b>39</b>	<b>50</b>
<b>Advance/Suspense (Net)</b>	<b>1</b>	<b>(0)</b>	<b>-</b>
<b>Total expenditure</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: MFCC Update (November 2022).

### 2.3 Legal and Regulatory Arrangements for PFM

2.19. The political system in Bhutan evolved from an absolute monarchy into a democratic constitutional monarchy with a parliamentary democracy established through the Constitution of Kingdom of Bhutan 2008. The first elections were held in 2008 and a new Government elected directly by the people was installed on the basis of the constitutional provisions. The next elections were subsequently held in 2013 and 2018. The Election Commission of Bhutan, established by the Constitution, which prepares for and oversees the elections to Parliament and LGs.

2.20. The Druk Gyalpo (the King of Bhutan) is the Head of State. The Constitution provides for a Government consisting of three main branches:

- The legislative power is vested in Parliament, which consists of the Druk Gyalpo and two houses: the National Council and the National Assembly. Besides its legislative functions, the Parliament reviews the Government's policies, plans and programs as well as its performance, reviews the implementation of resolutions and laws passed by Parliament and issues of national importance, and scrutinizes the budget and external audit reports.
- The executive power is vested in the Council of Ministers, which is headed by the Prime Minister (who is the leader of the party having majority seats in the National Assembly). The Druk Gyalpo appoints Ministers from members of the National Assembly on recommendation of the Prime Minister.
- Judicial authority is vested in the Royal Courts of Justice and comprises the Supreme Court, High Court, Dzongkhag Courts, and Dungkhag Courts. The appointment of judges, working of the courts, and the establishment of the courts are done by the Druk Gyalpo on the recommendation of a National Judicial Commission.

2.21. Constitutional bodies include the Anti-Corruption Commission (ACC), established to prevent and combat corruption, the Royal Civil Service Commission (RCSC), which is the

central personnel agency and manages the Civil Service Regulations,<sup>13</sup> the Royal Audit Authority (RAA), and the Election Commission of Bhutan.

2.22. The Constitution lays down the principles for PFM, including on the passage of money bills and financial bills, and provides for the Royal Audit Authority (RMA), Public Accounts Committee (PAC), and Economic and Finance Committee (EFC). The key principles of public finance followed by the RGoB are to exercise proper management of the monetary system and public finance, ensure that the servicing of public debt will not place an undue burden on future generations, and to finance recurrent expenditures only from internal resources. A minimum foreign currency reserve that is adequate to meet the cost of not less than one year's essential import must be maintained.

2.23. A key legislation on PFM is the Public Finance Act (PFA) 2007 (amended in 2012), which regulates financial management for the effective and efficient use of public resources, accountability and fiscal policy, and vests the overall responsibility of managing the public finances with the Council of Ministers.

2.24. The Financial Rules and Regulations (FRR) 2016 – comprising the Financial Management Manual (FMM), Budget Manual, Finance and Accounting Manual (FAM), and Property Management Manual (PMM) – provide rules and procedures for as well as guidance on PFM. Internal control is governed by the PFA 2007, National Internal Control Framework (NICF), and Financial Rules and Regulations (FRR) 2016. There are separate Procurement Rules and Regulations (PRR) 2019 and a Revenue Manual 2019. There are also separate Tax Laws.

#### **2.4 Institutional Arrangements for PFM**

2.25. The public sector comprises the **General Government (GG)** and the **public corporations (PCs)**.

- The General Government covers (a) the Central Government (CG); (b) the Local Governments (LGs) (Dzongkhags, Gewogs and Thromdes, which are established based on the Local Government Act 2009); and (c) a social security fund.
- The Central Governments consists of (i) the Budgetary Central Government (BCG) – namely the RGoB's 10 ministries, 37 autonomous agencies and 5 constitutional bodies (ACC, RCSC, Election Commission, Royal Court of Justice, and Royal Audit Authority (RAA)); and (ii) eight *extra-budgetary units* (EBUs).<sup>14</sup>

2.26. The above structure of the public sector is shown below measured based on financial turnover.

---

<sup>13</sup> Other constitutional bodies are the Royal Court of Justice, Election Commission of Bhutan and Royal Audit Authority (RAA), hence there are in total five constitutional bodies.

<sup>14</sup> EBUs are trust funds that are formally designated as Government Non-Budgetary Funds. Further explanation on EBUs is provided under PI-6 in Section 3.

**Table 2.5: Structure of the public sector – Financial turnover, FY 2021/22 (Nu.)**

	Public sector				
	Government Subsector		Social Security Fund	Public Corporation (PC) Subsector	
	Budgetary Units	EBUs		Non-Financial PCs	Financial PCs
<b>Central Government</b>					
Ministries (10)	31,343.746				
Constitutional bodies (5) (including Judiciary)	1,520.399				
Autonomous bodies (35)	7,577.473				
<b>Sub-National Government</b>					
Dzongkhags (20)	18,739.019				
Gewogs (205)	3,419.799				
Thromdes (4)	3,567.485				
<b>Others</b>					
Trust funds (non-government budgetary funds)		672.588			
National Pension and Provident Fund (NPPF)			2,331.144		
Public corporations (PCs)				47,548.000	10,908.000

Note: Figures for the government sector represent expenditure; while for others the figures are for revenue.

Source: National Budget Reports for FY 2022/23, AFS 2021/22 and NPPF Audited AFS 2021/22.

2.27. The structure of the central government, measured based on budget estimates, is shown below.

**Table 2.6: Financial structure of central government – Budget estimates, FY 2021/22 (Nu.)**

<i>Nu. Million</i>	Central government			
	Budgetary unit	EBUs	Social security funds	Total
Revenue	56,765.582	685.363	3,750.80	61,201.75
Expenditure	73,919.335	7,091.420	252.05	81,262.81
Transfers to (-) and from (+) other units of general government	623.409			623.409
Liabilities	-		190.87	
▪ Public debt	239,814.013		-	
▪ RGoB's share of PC borrowing	44,725.630		-	
Financial assets	-		50,535.97*	
▪ Cash/bank balances	-		-	
▪ RGoB equity holding	55,233.913		-	
Non-financial assets	-	-	-	-

\* Total financial and non-financial assets.

Source: National Budget Report for FY 2022/23 and NPPF Audited AFS 2021/22.



2.28. The structure of the Central Government, measured based on actual spending estimates, is shown below.

**Table 2.7: Financial structure of central government – Actual expenditures, FY 2021/22 (Nu.)**

<i>Nu. Million</i>	Central government			
	Budgetary Bodies	EBUs	Social Security Funds	Total
Revenue	54,354.617	1,349.712	2,331.144	58,035.47
Expenditure	69,156.613	672.588	200.540	70,029.74
Transfers to (-) and from (+) other units of general government	1,170.925			1,170.925
Liabilities	-	-	992.722	
▪ Public debt	247,681.515	-	-	
▪ RGoB's share of PC borrowing	25,574.437	-	-	
Financial assets	-	-	49,859.436	
▪ Cash/bank balances	1,518.970	-	-	
▪ RGoB equity holding	115,276.960	-	-	
Non-financial assets	-	-	1,496.820	

Source: National Budget Report for FY 2022/23, AFS 2021/22 and NPPF Audited AFS 2021/22.

2.29. As mandated by the Constitution and the PFA (as amended) and other laws, the MoF is responsible for implementation of a sound PFM system. The MoF, established in 1961 during the 16<sup>th</sup> Session of the National Assembly, has five Departments and five Divisions: Department of Planning, Budget and Performance (DPBP), Department of Revenue and Customs (DRC), Department of Procurement and Properties (DPP), Department of Treasury and Accounts (DTA), Department of Macro-fiscal and Development Finance (DMDF), and Division of Support Services, Policy and Planning Division (PPD), Central Coordinating Agency (CCA), Internal Audit Unit (IAU), and Accounting and Auditing Standard Board of Bhutan (AASBB). The total approved staff strength of the MoF as of December 2022 was 2,060.

2.30. The MoF tables before Parliament three key documents: The audited AFS, Budget Policy and Fiscal Framework Statement, and Budget Report and Appropriation bill. The MoF also tables money bills in the form of tax bills. The MoF is responsible for preparing the budget, which is subject to legislative scrutiny and parliamentary approval. The EFC of Parliament reviews and assesses budget proposals. The MoF furthermore issues the FRR.

2.31. The RMA is the Central Bank of Bhutan. The RGoB's banking services for payment and revenue collection are managed by the Bank of Bhutan Limited (BoBL), which is a RGoB-owned PC. External audit is conducted by the RAA, which has purview over the whole public sector.

## **2.5 Other Key Features of PFM and its Operating Environment**

2.32. The annual budget prepared by the MoF is presented to Parliament. Formal approval is accorded by Parliament in its summer session along with a supplementary (revision) budget for the current fiscal year.

2.33. The budget is managed by the MoF through its Departments. After the budget is approved by Parliament, the DPBP notifies the budgetary bodies of their approved budgetary provisions. Drawing and Disbursing Officers (DDOs) ensure that claims/bills are cleared within one month of their receipt. The electronic Public Expenditure Management System (e-PEMS) is the basis for budget execution, in-year reporting and annual financial reporting, and covers the revenues and expenditures of all budgetary bodies. Externally financed projects are fully accounted for in the budget reports and the AFS. It is mandatory for all budgetary bodies to initiate, process and complete transactions and accounts in the e-PEMS on a daily basis. The e-PEMS does not cover the revenues and expenditures of PCs, National Pension and Provident Fund (NPPF), and some trust funds.

2.34. All public monies not allocated to specific purposes by law are deposited in a Consolidated Fund maintained with the RMA. Government receipts and payments are segregated, with payments made from one set of bank accounts and receipts paid into another. Expenditures are limited by the amounts provided in the annual budget and by letters of credit (LC) issued by the MoF. LCs are instructions to banks to honor cheques drawn on specified accounts up to specified limits. Unless the budget is amended, the MoF cannot issue LCs that exceed the sums provided in the budget. This system enables budgetary bodies to fund their expenditures, with their parent ministries acting as accounting units.

2.35. In addition to the DTA's e-PEMS, revenues and expenditures are managed through the DPBP's Multi Year Rolling Budget (MYRB) system, and DRC's Revenue Administration Management Information System (RAMIS). This is supported by the RCSC's Civil Service Information System (CSIS) for payroll accounting.

2.36. The National Assembly's Oversight Manual 2017 provides for increasing public awareness of and participation in the work of Parliament through publication and dissemination of the calendar of Parliament and information on how the public may engage with Parliament (e.g., through E-Parliament and social media (Section 156)). The FAM 2016 requires public works execution to be carried out through community participation (Section 7.3.2.2. b), and agencies executing works through community participation must maintain an attendance register to record such contributions (Section 7.4.2. xiii). Also, although there is no legal or regulatory requirement to under Citizens Participatory Audits, the RAA has worked to develop and pilot guidelines.

## 3. ASSESSMENT OF PFM PERFORMANCE

3.1. Chapter 3 provides the assessment of the key elements of the RGoB’s PFM system, as captured by the pillars, indicators and dimensions of the PEFA assessment framework.

3.2. The PFM performance of each dimension and performance indicator (PI) has been assessed and assigned ratings of “A” to “D” as per the PEFA framework criteria. The ratings may be broadly interpreted as follows:

<b>A</b>	High level of performance that meets good international practices.
<b>B</b>	Sound performance in line with many elements of good international practices.
<b>C</b>	Basic level of performance.
<b>D</b>	Either less than the basic level of performance or insufficient information to score.

3.3. The structure of the chapter is based on the seven pillars as follows:

Pillar I	Budget reliability
Pillar II	Transparency of public finances
Pillar III	Management of assets and liabilities
Pillar IV	Policy-based fiscal strategy and budgeting
Pillar V	Predictability and control in budget execution
Pillar VI	Accounting and reporting
Pillar VII	External scrutiny and audit

### PILLAR I: Budget reliability

3.4. Pillar I assesses whether the Government budget is realistic and implemented as intended. This is measured by comparing actual revenues and expenditures (the immediate results of the PFM system) with the original approved budget.

#### *PI-1. Aggregate expenditure out-turn*

3.5. This indicator measures the extent to which aggregate budget expenditure out-turn reflects the amount originally approved, as defined in government budget documentation and fiscal reports.

**Table 3.1: Minimum scoring requirements for PI-1**

Score	Minimum requirements for scores
<b>PI-1.1 Aggregate expenditure out-turn</b>	
A	Aggregate expenditure out-turn was between 95% and 105% of the approved aggregate budgeted expenditure in at least two of the last three years.
B	Aggregate expenditure out-turn was between 90% and 110% of the approved aggregate budgeted expenditure in at least two of the last three years.

C	Aggregate expenditure out-turn was between 85% and 115% of the approved aggregate budgeted expenditure in at least two of the last three years.
D	Performance is less than required for a C score.

**Table 3.2: Summary of scores for PI-1 and performance table**

Indicator/Dimension	2016 Score	2022 Score	Brief justification for score
<b>PI-1. Aggregate expenditure out-turn</b>	<b>A</b>	<b>B</b>	-
1.1 Aggregate expenditure out-turn	A	B	Aggregate expenditure out-turn was between 90% and 110% of the approved aggregate budgeted expenditure in at least two of the last three years.

### 1.1 Aggregate expenditure out-turn

3.6. **Performance level and evidence for scoring of the dimension:** The RGoB's original budget and actual expenditures for the last three fiscal years are shown in the table below together with the calculated deviation.<sup>15</sup> The underlying data and calculations are shown in Annex 4.

**Table 3.3: Total budget and actual expenditure**

	FY 2019/20	FY 2020/21	FY 2021/22
Original budget (Nu. Million)	61,197.307	69,151.122	73,919.335
Actual expenditure (Nu. Million)	57,572.280	71,091.810	69,156.587
<b>Actual Expenditure/Original Budget %</b>	<b>94%</b>	<b>103%</b>	<b>94%</b>

Note: Actual expenditure includes expenditure for donor funded projects (loans and grants) except debt interest, and lending and repayment.

Sources: Annual financial statements (AFS) and National Budget Reports/Multi-Year Rolling Budget (MYRB) system.

3.7. The major variances were due to:

- With the outbreak of the COVID-19 pandemic, all sectors of the economy were severely affected. Although agencies as well as the MoF attempted to factor in the likely impact of the pandemic when budgets were prepared, activities could not be executed as planned in the wake of increasing COVID-19 cases and imposition of lockdowns and other restrictions. Thus, the spending of the budget could not be achieved as planned.
- The capital budget is usually provisioned based on cost estimates. However, when actual execution is initiated, contracts are awarded based on tenders submitted. As such, the tender amounts are often lower than the budget provisions. Also, the budget balance can only be ascertained towards fiscal year-end due to time lags in submission of vendor invoices.
- Most underutilization happens for donor-funded projects and activities. The agencies normally keep provisions as per work plans and fund commitments from donors.

<sup>15</sup> The data set includes annual grants provided by the RGoB to the LGs. The inclusion of annual grants is in line with the PEFA Secretariat's Fieldguide, para 1.1:7.

However, disbursement of funds from donors is sometimes delayed, which hampers the execution of works and delays payments and booking of expenditures thereof.

3.8. Based on the analysis and supporting evidence, the score for the dimension is B.

3.9. **Performance change since the previous assessment:** The score changed from A in the 2016 to B in 2022. This is because the deviations were larger for FY 2019/20-FY 2021/22 as compared to FY 2012/13-FY 2014/15 (106%, 96% and 98%, respectively).

3.10. **Recent or ongoing reform activities:** In order to ensure adequate monitoring of physical and financial progress of activities, the MoF has developed the online Budget Monitoring Tool (BMT), which mandates the budgetary bodies to submit their work plans (both physical and financial) for approved capital activities on a quarterly basis. The agencies provide the physical and financial progress of the approved activities, which enables them to realign activities with the budget based on emerging needs. It is expected that this practice will improve the implementation of activities and result in lower variances between original budget and the actual expenditure.

3.11. The MoF has also developed and implemented a format for budgetary bodies to submit their budget proposal. On this basis, and considering good practices of public investment management, the Department of Planning, Budget and Performance (DPBP) reviews proposals, including project appraisal, rationale, linkages to national priorities, beneficiaries, implications on recurrent budget, and project risk management. The screening mechanism helps to ensure that a realistic budget is established resulting in lower variance between the original budget and actual expenditure.

### **PI-2. Expenditure composition out-turn**

3.12. This indicator measures the extent to which reallocations between the main budget categories during execution have contributed to variance in expenditure composition.

**Table 3.4: Minimum scoring requirements for PI-2**

Score	Minimum requirements for scores
<b>PI-2.1 Expenditure composition out-turn by function</b>	
A	Variance in expenditure composition by program, administrative or functional classification was less than 5% in at least two of the last three years.
B	Variance in expenditure composition by program, administrative or functional classification was less than 10% in at least two of the last three years.
C	Variance in expenditure composition by program, administrative or functional classification was less than 15% in at least two of the last three years.
D	Performance is less than required for a C score.
<b>PI-2.2 Expenditure composition out-turn by economic type</b>	
A	Variance in expenditure composition by economic classification was less than 5% in at least two of the last three years.
B	Variance in expenditure composition by economic classification was less than 10% in at least two of the last three years.

C	Variance in expenditure composition by economic classification was less than 15% in at least two of the last three years.
D	Performance is less than required for a C score.
<b>PI-2.3 Expenditure from contingency reserves</b>	
A	Actual expenditure charged to a contingency vote was on average less than 3% of the original budget.
B	Actual expenditure charged to a contingency vote was on average more than 3% but less than 6% of the original budget.
C	Actual expenditure charged to a contingency vote was on average more than 6% but less than 10% of the original budget.
D	Performance is less than required for a C score.

**Table 3.5: Summary of scores for PI-2 and performance table**

Indicator/Dimension	2016 Score	2022 Score	Brief justification for score
<b>PI-2. Expenditure composition out-turn</b>	<b>C+</b>	<b>D+</b>	Scoring method M1
2.1 Expenditure composition out-turn by function	C	C	Variance in expenditure composition by administrative classification was less than 15% in two of the last three years (FY 2019/20 and FY 2021/22).
2.2 Expenditure composition out-turn by economic type	B	D	Variance on economic classification was more than 15% in all of the last three years.
2.3 Expenditure from contingency reserves	A	A	Actual expenditure charged to contingency vote was nil in each year.

### 2.1. Expenditure composition out-turn by function

3.13. **Performance level and evidence for scoring of the dimension:** Based on the administrative classification, the variances between the original budget and actual expenditure compositions (current and capital) were 13.5% in FY 2019/20, 37.2% in FY 2020/21 and 8.3% in FY 2021/22 (see Annex 4).

3.14. Based on the analysis and supporting evidence, the score for the dimension is C.

### 2.2. Expenditure composition out-turn by economic type

3.15. **Performance level and evidence for scoring of the dimension:** Based on the economic classification, the variances were 27.6%, 50.4% and 40.8%, respectively, for the last three fiscal years (see Annex 4). For FY 2019/20, the main variance was on account of personnel emoluments where actual expenditure was Nu. 17,706.10 million against the approved budget of Nu. 12,953.76 million. The increase in expenditure out-turn as compared to the original budget was mainly because of the pay revision for the civil servants. The variance was also due to the COVID-19 income support transfer (Kidu) from Druk Gyalpo's Relief Kidu during the year. For FY 2020/21, the main variance was related to the head 'social benefits' where the actual expenditure was Nu. 12,931.45 million against the budget of Nu. 1,398.88 million. This was mainly due to COVID-19 income support transfer (Kidu) from Druk Gyalpo's Relief Kidu.

The variance was also due to the 'use of goods and services', which was budgeted at Nu. 3,008.50 million compared to actual expenditure of Nu. 7,341.41 million. For FY 2021/22, the high variance was on account of 'use of goods and services'; the annual grants for local governments (LGs) are placed under a single budget head in the budget (OBC-7.02), whereas the LGs book their actual expenditures under specific accounting heads.

3.16. Based on the analysis and supporting evidence, the score for the dimension is D.

### 2.3. Expenditure from contingency reserves

3.17. **Performance level and evidence for scoring of the dimension:** The contingency fund provisioned as General Reserve under the MoF's budget is transferred to various agencies based on the General Reserve Guidelines as and when required, and expenditures are accounted for under the respective agencies. Hence, there is no expenditure charged against the General Reserve provisioned under the MoF.

3.18. Based on the analysis and supporting evidence, the score for the dimension is A.

3.19. **Performance change since the previous assessment:** The score of PI-2.2 changed from B in 2016 to D in 2022. This is because the variances in the expenditure composition out-turn by economic type was notably larger for FY 2019/20-FY 2021/22 (between 27.6% and 50.4%) as compared to FY 2012/13-FY 2014/15 (between 4.9% and 10.5%).

### **PI-3. Revenue out-turn**

3.20. This indicator measures the change in revenue between the original approved budget and end-of-year out-turn.

**Table 3.6: Minimum scoring requirements for PI-3**

Score	Minimum requirements for scores
<b>PI-3.1 Aggregate revenue out-turn</b>	
A	Actual revenue was between 97% and 106% of budgeted revenue in at least two of the last three years.
B	Actual revenue was between 94% and 112% of budgeted revenue in at least two of the last three years.
C	Actual revenue was between 92% and 116% of budgeted revenue in at least two of the last three years.
D	Performance is less than required for a C score.
<b>PI-3.2 Revenue composition out-turn</b>	
A	Variance in revenue composition was less than 5% in two of the last three years.
B	Variance in revenue composition was less than 10% in two of the last three years.
C	Variance in revenue composition was less than 15% in two of the last three years.
D	Performance is less than required for a C score.



**Table 3.7: Summary of scores for PI-3 and performance table**

Indicator/Dimension	2016 Score	2023 Score	Brief justification for score
<b>PI-3. Revenue out-turn</b>	<b>D+</b>	<b>C</b>	Scoring method M2
3.1 Aggregate revenue out-turn	C	B	Actual revenue was between 94% and 112% of budgeted revenue in each of the last three years.
3.2 Revenue composition out-turn	D	D	Variance was more than 15% in each of the last three years.

3.21. Revenue forecasting is done by the Department of Macro-fiscal and Development Finance (DMDF) on a medium- and long-term basis as part of the Medium-Term Fiscal Framework (MTFF) and covers the five year plan (FYP) period. The forecasting methodology uses economic indicators (e.g., GDP, imports and consumption) as a base. Normally, the revenue projection is intended to cover all recurrent expenditure and a share of capital expenditure. The projections are examined by the Macroeconomic Framework Coordination Technical Committee (MFCTC), of which DRC is a member, and approved by the Macro Fiscal Coordination Committee (MFCC). Forecasts are re-examined on a quarterly basis (i.e., October, January, April and June). Importantly, the initial forecast/estimates are based on a baseline scenario assuming no policy changes. Any policy changes are incorporated and reflected in the revised forecast. The revenue estimates are revised based on the actual collections for the preceding year and incorporating policy changes that might impact revenues. Therefore, if the variation is compared between estimates and the actual revenue, then the deviation is much higher compared to the variation between revised and actual revenue.

3.22. Detailed data on execution of budgeted revenue forecasts is provided in the annual budget report. The main revenue is broken down partly in Government Finance Statistics (GFS) classification.

### 3.1 Aggregate revenue out-turn

3.23. **Performance level and evidence for scoring of the dimension:** Aggregate revenue was 101% of the original budget in FY 2019/20, 111% in FY 2020/21, and 96% FY 2021/22. The underlying data and calculations are shown in Annex 5.<sup>16</sup>

**Table 3.8: Total budget and actual revenue**

Total Revenue	FY 2019/20	FY 2020/21	FY 2021/22
Budget (Nu. millions)	54,190.38	53,821.63	56,765.58
Actual (Nu. millions)	54,603.87	59,696.11	54,354.62
Out-turn	101%	111%	96%

Note: The data covers BCG only.

3.24. Based on the analysis and supporting evidence, the score for the dimension is B.

<sup>16</sup> With decentralization of local government, local taxes are retained by the Gewogs to meet local expenditures. Furthermore, with the creation of Thromdes, the taxes collected by the Thromdes in the form of land tax, house and building tax are retained to meet their expenditure. Such revenues are, as a share of the RGoB's total revenues, insignificant (approximately 1% of total revenues).

## 3.2 Revenue composition out-turn

3.25. **Performance level and evidence for scoring of the dimension:** Composition variance was 34.3% in FY 2019/20, 34.1% in FY 2020/21, and 25.2% in FY 2021/22. Variance in the larger revenue sources – such as corporate income tax (CIT) and grants – contribute to much of the composition variance. The underlying data and calculations are shown in Annex 5.

3.26. Grants are not entered into the budget unless they are confirmed, yet grant revenue varies compared with the original budget in the years under consideration. The variance in grant figures is due to non-receipt of funds on time as well as incomplete procurement and administrative formalities at the agency-level. In response to the COVID-19 pandemic, the Government has pragmatically lowered the budget target for CIT in FY 2020/21 and FY 2021/22 to 65% of the FY 2019/20 realization. Considering the lower budgeted figures in these two years, the actual revenue collection from CIT exceeded the budgeted target.

3.27. Based on the analysis and supporting evidence, the score for the dimension is D.

3.28. **Performance change since the previous assessment:** PI-3.1 improved from C in 2016 to B in 2022. This is primarily due to lower variation in external grants received by the RGoB.

3.29. **Recent or ongoing reform activities:** The operationalization of digital systems and enactment of Customs Act and Tax Act, increase in tourism levy to focus on high-value tourism, and medium-term revenue strategy may likely help boost revenue mobilization. The enactment of Customs Duty Act 2021 and the Customs Duty (Amendment) Act 2021 and Tax Act 2021 rationalized customs rates, revised Bhutan Trade Classification and Tariff Schedule 2022 and commodity descriptions, and updated sales tax and green tax rates according to new classification. The RGoB has also operationalized the Customs Road Cargo Manifest System (CRCMS), which will help to reduce revenue leakage and promote digitization of revenue administration. The CRCMS is a major upgrade from the spreadsheet-based vehicle registration system and addresses loopholes that were exploited to avoid taxes. The RGoB also plans to operationalize an electronic Customs Management System (eCMS) by 2023 following the approval of Customs Rules and Regulations 2022. The Asian Development Bank (ADB) estimates that the reform will add customs revenue growth compared to the FY 2018/19 baseline.<sup>17</sup>

## **PILLAR II: Transparency of public finances**

3.30. Pillar II assesses whether information on PFM is comprehensive, consistent, and accessible to users. This is achieved through comprehensive budget classification, the transparency of all government revenue and expenditure including intergovernmental transfers, published information on service delivery performance, and ready access to fiscal and budget documentation.

---

<sup>17</sup> ADB. 2022. *Proposed Programmatic Approach, Policy-Based Loan for Subprogram 1, and Technical Assistance Grant Kingdom of Bhutan: Fiscal Sustainability and Green Recovery Program*. Report and Recommendation of the President to the Board of Directors. Manila, Program Economic Assessment, p. 10.

### PI-4. Budget classification

3.31. This indicator assesses the extent to which the Government budget and accounts classification is consistent with international standards.

**Table 3.9: Minimum scoring requirements for PI-4**

Score	Minimum requirements for scores
<b>PI-4.1 Budget classification</b>	
A	Budget formulation, execution, and reporting are based on every level of administrative, economic, and functional classification using GFS/COFOG standards or a classification that can produce consistent documentation comparable with those standards. Program classification may substitute for sub-functional classification if it is applied with a level of detail at least corresponding to sub-functional classification.
B	Budget formulation, execution, and reporting are based on administrative, economic (at least 'Group' level of the GFS standard—3 digits), and functional/sub-functional classification, using GFS/COFOG standards or a classification that can produce consistent documentation comparable with those standards.
C	Budget formulation, execution, and reporting are based on administrative and economic classification using GFS standards (at least level 2 of the GFS standard—2 digits) or a classification that can produce consistent documentation comparable with those standards.
D	Performance is less than required for a C score.

**Table 3.10: Summary of scores for PI-4 and performance table**

Indicator/Dimension	2016 Score	2022 Score	Brief justification for score
<b>PI-4. Budget classification</b>	<b>A</b>	<b>A</b>	-
4.1 Budget classification	A	A	Budget formulation, execution and reporting are based on every level of administrative, economic and functional classification using GFS/COFOG-compliant classifications.

3.32. Budget preparation and execution is done using the Multi-Year Rolling Budgeting (MYRB) system, which is a web-based real-time system that connects the MoF's DPBP with the budgetary bodies. The MYRB allows users to generate financial information online efficiently. Financial reports can be generated to various levels of budget classification.

#### 4.1 Budget classification

3.33. **Performance level and evidence for scoring of the dimension:** The classification system remains the same as at the time of the last PEFA assessment in 2016.

- **Central Government administrative units are classified as follows:**
  - i. Judiciary
  - ii. Constitutional bodies
  - iii. Autonomous agencies
  - iv. Ministries
- **Government expenditures are classified into four main economic categories:**
  - i. Recurrent expenditure
  - ii. Capital expenditure

- iii. Lending
- iv. Repayment

3.34. These categories are further classified economically into objects of expenditure in accordance with the chart of accounts (CoA) as per Appendix II of the MoF's 2016 Finance and Accounting Manual (FAM). This is for the purpose of assessing and monitoring resource allocation and general macroeconomic implications of budget transactions. The economic classification is converted manually (using spreadsheet software) to a GFS classification through a bridging table for the purpose of annual International Monetary Fund (IMF)-GFS reporting. The level of economic classification used is two-, three- and four-digits.

3.35. **Government expenditure is also classified by activity and sub-activity.** A bridging table is used to convert this to a Classifications of Functions of Government (COFOG) classification to the group level (level 2), and in some cases to the class level (level 3). For instance, the sub-function pre-primary and primary education (GFS code 70910) is divided into pre-primary education (70911), and primary education (70912).

3.36. **Government expenditure is also classified by source of funds (Financing Item Code (FIC)).** Expenditure is also classified by source of funds with unique financing item code for each programs/project/sub-activity. Thus, credible information on the source of funds for every activity are tracked and reported.

3.37. **Government receipts are classified broadly as:**

- i. Taxes and duties
- ii. Fees and income from property and enterprises
- iii. Proceeds from sale of land and other capital assets
- iv. Recovery of on-lending
- v. Grants from multilateral and bilateral sources
- vi. Borrowings
- vii. Receipts from other sources

3.38. The revenue classification is, similar to expenditure classification, converted manually (using spreadsheet software) to a GFS classification through a bridging table for the purpose of annual IMF-GFS reporting.

3.39. Bhutan is rich in natural resources, with hydropower revenues in the form of CIT, dividends, royalties, and profit transfers, accounting for about 35% of domestic revenues. The revenue classification system does not specifically identify hydropower revenues in the National Budget Report, however, the details are as follows for the FY 2022/23:

**Table 3.11: Hydro-related revenues**

Domestic Revenue	36,368.270	% Share
<b>Total hydro revenue</b>	<b>12,840.361</b>	35.3%
Corporate Income Tax (CIT) related to hydropower	4,464.336	12.3%
o/w Druk Holding and Investments (DHI) Limited	1,809.858	5.0%

Domestic Revenue	36,368.270	% Share
o/w Druk Green Power Corporation (DGPC) Limited	2,202.288	6.1%
o/w Bhutan Power Corporation (BPC) Limited	452.190	1.2%
Royalty from Hydro	4,245.288	11.7%
Profit Transfer from Hydro	4,130.737	11.4%
	<b>36,368.270</b>	

Source: DMDF.

3.40. Based on the analysis and supporting evidence, the score for the dimension is A.

3.41. **Performance change since the previous assessment:** There is no change in the score of PI-4 from 2016 to 2022.

3.42. **Recent or ongoing reform activities:** The introduction of annual performance-based budgeting and the development of a new budgeting system, as was indicated in the 2016 PEFA assessment report, was delayed due to human resources and fiscal constraints. However, the existing budgeting system is being improved on a continuous basis, including based on (i) introduction of new object codes and removal of inactive ones, and (ii) development of a diagnostic tool for the month closing. Also, the MoF is working with the IMF on the development of a unified CoA, which will update the basis of the Government Finance Statistics Manual (GFSM) 1986 to the GFSM 2014. The MoF is also planning to automate the bridging (concordance) tables for the purpose of annual IMF-GFS reporting.

#### **PI-5. Budget documentation**

3.43. This indicator assesses the comprehensiveness of the information provided in the annual budget documentation, as measured against a specified list of basic and additional elements.

**Table 3.12: Minimum scoring requirements for PI-5**

Score	Minimum requirements for scores
<b>PI-5.1 Budget documentation</b>	
A	Budget documentation fulfills 10 elements, including every basic element (1–4).
B	Budget documentation fulfills 7 elements, including at least 3 basic elements (1–4).
C	Budget documentation fulfills at least 3 basic elements (1–4).
D	Performance is less than required for a C score.

**Table 3.13: Summary of scores for PI-5 and performance table**

Indicator/Dimension	2016 Score	2022 Score	Brief justification for score
<b>PI-5. Budget documentation</b>	<b>A</b>	<b>C</b>	-
5.1 Budget documentation	A	C	Budget documentation includes all four basic elements, and two out of eight of the additional elements.

3.44. As required by the legal provision under the Public Finance (Amendment) Act 2012, the MoF submits the annual National Budget Report to Parliament for scrutiny and approval. The Finance Minister presents the budget to Parliament, highlighting the Government’s focus areas with the estimated budget for the year, and the previous year’s expenditure performance.

3.45. After the presentation by the Finance Minister, the budget is shared with Parliament’s Economic and Finance Committee (EFC) for review. The EFC reviews and assesses the budget proposal in consultation with the MoF and budgetary bodies, and present the findings and recommendations to the National Assembly for debate within 10 days from the date of the National Budget Report presentation by the Finance Minister.

3.46. The National Budget Report includes the following: (i) annual budget report, (ii) budget bill, and (iii) budget supplementary appropriation bill.

3.47. The annual audited financial statements (AFS) are submitted to Parliament during the winter session, within six months of the closure of the fiscal year.

### 5.1 Budget documentation

3.48. **Performance level and evidence for scoring of the dimension:** The budget elements included in the National Budget Report for FY 2022/23 are shown below.

**Table 3.14: Budget elements included in the National Budget Report for FY 2022/23**

Element/ requirements	Met (Yes / No)	Evidence used / comments
<b>Basic elements</b>		
1. Forecast of the fiscal deficit or surplus or accrual operating result.	Yes	Annual budget report, Chapter 2.
2. Previous year’s budget out-turn, presented in the same format as the budget proposal.	Yes	Annual budget report, Chapter 2 (2.4.1).
3. Current fiscal year’s budget presented in the same format as the budget proposal.	Yes	Annual budget report, Chapter2 (2.4.2).
4. Aggregated budget data for both revenue and expenditure.	Yes	Annual budget report, Chapter 2, 3 and 4.
<b>Additional elements</b>		
5. Deficit financing, describing its anticipated composition.	Yes	Annual budget report, Chapter 5 (5.4).
6. Macroeconomic assumptions, including at least estimates of GDP growth, inflation, interest rates, and the exchange rate.	No	The annual budget report, Table 1.1 and Figure 1.4, includes projections of GDP growth and inflation, but not interest rates or exchange rates.
7. Debt stock, including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard.	Yes	Annual budget report, Chapter 5.

Element/ requirements	Met (Yes / No)	Evidence used / comments
8. Financial assets, including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard.	No	The annual budget report does not include information on financial assets.
9. Summary information of fiscal risks.	No	The annual budget report includes a fiscal risk section with a fiscal risk assessment matrix (Chapter 6). However, the information is forward looking and based on projections, and not exhaustive (for instance, the matrix does not include all contingent liabilities).
10. Explanation of budget implications of new policy initiatives and major new public investments, with estimates of the budgetary impact of <i>all</i> major revenue policy changes and/or changes to expenditure programs.	No	Chapter 4 of the annual budget report includes section on 'Transformation Initiatives', but it does not cover explanation of budget implications of new policy initiatives and major new public investments.
11. Documentation on the medium-term fiscal forecasts.	No	The annual budget report only covers estimates for the 12 <sup>th</sup> FYP. The outer forecast is not captured in the absence of approval of 13 <sup>th</sup> FYP outlay. In the past such projections were captured annually.
12. Quantification of tax expenditures.	No	The annual budget report does include information on tax expenditures.

3.49. The requirements are met for all four basic elements as well as for two out of eight additional elements.

3.50. Based on the analysis and supporting evidence, the score for the dimension is C.

3.51. **Performance change since the previous assessment:** The score for 2022 (C) has changed compared to the 2016 PEFA assessment (A). This is because the National Budget Report for FY 2022/23 includes less additional elements:

- **Element 9** – The National Budget Report for FY 2022/23 does not include all contingent liabilities (this element was incorrectly assessed in 2016) [see PI-10].
- **Element 10** – The National Budget Report for FY 2022/23 does not include estimates of all major policy changes and changes to expenditure programs (which were both covered in earlier budget reports).
- **Element 11** – The National Budget Report for FY 2022/23 does not include medium-term fiscal forecasts.
- **Element 12** – The National Budget Report for FY 2022/23 does not include quantification of tax expenditures.

3.52. **Recent or ongoing reform activities:** The MoF is strengthening reporting of public corporations (PCs) performance through the development of a PC database and the issuance



of regular annual PC reports, including information on fiscal risks to the central government. This is expected to inform and strengthen the fiscal risk statement in future budget reports.

### PI-6. Central government operations outside financial reports

3.53. This indicator measures the extent to which Government revenue and expenditure are reported outside Central Government financial reports.

**Table 3.15: Minimum scoring requirements for PI-6**

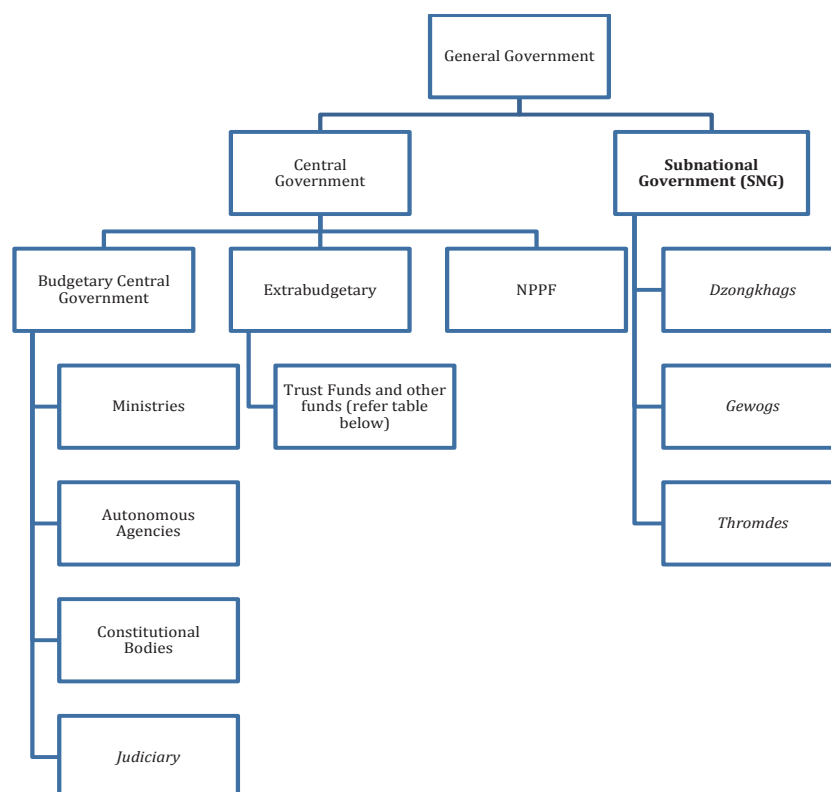
Score	Minimum requirements for scores
<b>PI-6.1 Expenditure outside financial reports</b>	
A	Expenditure outside government financial reports is less than 1% of total BCG expenditure.
B	Expenditure outside government financial reports is less than 5% of total BCG expenditure.
C	Expenditure outside government financial reports is less than 10% of total BCG expenditure.
D	Performance is less than required for a C score.
<b>PI-6.2 Revenue outside financial reports</b>	
A	Revenue outside government financial reports is less than 1% of total BCG revenue.
B	Revenue outside government financial reports is less than 5% of total BCG revenue.
C	Revenue outside government financial reports is less than 10% of total BCG revenue.
D	Performance is less than required for a C score.
<b>PI-6.3 Financial reports of extra-budgetary units</b>	
A	Detailed financial reports of all extrabudgetary units are submitted to government annually within three months of the end of the fiscal year.
B	Detailed financial reports of most extrabudgetary units are submitted to government annually within six months of the end of the fiscal year.
C	Detailed financial reports of the majority of extrabudgetary units are submitted to government annually within nine months of the end of the fiscal year.
D	Performance is less than required for a C score.

**Table 3.16: Summary of scores for PI-6 and performance table**

Indicator/Dimension	2016 Score	2022 Score	Brief justification for score
<b>PI-6. Central government operations outside financial reports</b>	<b>C+</b>	<b>B</b>	Scoring method M2
6.1 Expenditure outside financial reports	B	B	Expenditure outside government financial reports was 1.5% of total Budgetary Central Government (BCG) expenditure for FY 2021/22.
6.2 Revenue outside financial reports	B	B	Revenue outside government financial reports was 2.5% of total BCG revenue for FY 2021/22.
6.3 Financial reports of extra-budgetary units	D	B	Detailed financial reports of all extra-budgetary units are submitted to the government within six months of the end of fiscal year.

3.54. The structure of the Central Government (RGoB) and LGs is shown in the figure below.

**Figure 3.1: Structure of the general government sector**



3.55. The basis for budgeting, in-year reporting, and annual financial reporting for the government budgetary bodies (i.e., constitutional bodies, autonomous bodies, the judiciary, and ministries)<sup>18</sup> and local governments (Dzongkhags, Gewogs, and Thromdes) is the e-PEMS. The e-PEMS does not cover refundable deposits, which are not government money, and Government Non-Budgetary Fund Accounts pertaining to eight extra-budgetary units (EBUs) or non-budgetary funds. Nor does the e-PEMS cover the revenues and expenditures of financial and non-financial public corporations (PCs) as these are outside the RGoB and have separate accountability arrangements. Externally financed projects are fully accounted for in the National Budget Reports and the AFS.<sup>19</sup>

3.56. The National Budget Reports have a dedicated chapter that describes the financial position of the public sector institutions and the RGoB's investments. It gives a detailed account of operational expenses and financial position of PCs, including the Royal Monetary Authority (RMA), DHI Limited and its subsidiaries, National Pension and Provident Fund (NPPF), National Credit Guarantee Scheme (NCGS), the EBUs mentioned above, and PCs under the MoF.<sup>20</sup> The chapter also covers hydropower projects, financing modalities, and the financial progress of ongoing hydropower projects.

<sup>18</sup> It is noted that the Royal Court of Justice (and hence the judiciary) formally is considered a constitutional body.

<sup>19</sup> The AFS 2020/21 did not include certain scholarships provided by development partners, grants for a hydro-electric project (PHP-I: Nu. 0.00, PHP-II: Nu. 1,269.40 million), and roads constructed under Government of India (GoI) projects, Dantak. These are not taken into account in the scoring because the activities are undertaken under inter-governmental special arrangements and entirely funded through the respective governments and development partners.

<sup>20</sup> 15 PCs, including the DHI under the MoF.

3.57. The Government Non-Budgetary Fund Account constitutes EBUs of the RGoB. There are no operations of the budgetary bodies outside the RGoB's financial reports.<sup>21</sup>

**Table 3.17: Government non-budgetary funds expenditures and revenues for FY 2021/22**

Entity	Expenditure reported outside RGoB financial reports (Nu. Million)	Income reported outside RGoB financial reports (Nu. Million)
Bhutan Trust Fund for Environmental Conservation	135.01	105.51
Bhutan Health Trust Fund	431.49	1,023.22
Trust Fund for Cultural Heritage	0	0
Sherig Endowment Fund	8.60	10.32
Endowment Fund for Crop and Livestock Conservation	1.17	0
National Research Endowment Fund	0.68	0.69
Universal Service Fund	95.08	87.46
Bhutan Economic Stabilization Fund	0	123.08
<b>Total [Government Non-Budgetary Funds]</b>	<b>672.03</b>	<b>1,350.28</b>
<i>Budgetary Central Government (BCG)<sup>22</sup></i>	<i>43,430.28</i>	<i>54,354.62</i>
<b>Extra-budgetary as a share of BCG</b>	<b>1.5%</b>	<b>2.5 %</b>

Note: BCG comprises Autonomous Agencies, Constitutional Bodies, and Ministries.

Source: Government Non-Budgetary Funds and RGoB.

### 6.1 Expenditure outside financial reports

3.58. **Performance level and evidence for scoring of the dimension:** Total budgetary central government (BCG) expenditure in FY 2021/22 was Nu. 43,430.28 million. For FY 2021/22, the EBUs had expenditures of Nu. 672.03 million, equivalent to 1.5% of total BCG expenditure.

3.59. Based on the analysis and supporting evidence, the score for the dimension is B.

### 6.2 Revenue outside financial reports

3.60. **Performance level and evidence for scoring of the dimension:** Total government revenue in FY 2021/22 was Nu. 54,354.62 million. The revenues of EBUs, comprising mainly interest income, donations, and grants, were Nu. 1,350.28 million, equivalent to 2.5% of total BCG revenue.

3.61. Based on the analysis and supporting evidence, the score for the dimension is B.

<sup>21</sup> At the time of the 2016 PEFA assessment, the NPPF was considered as an EBU. The NPPF is an autonomous employment-related pension fund (i.e., a separate institutional unit) for government staff, and a public financial corporation under control of the government (as per the IMF's GFSM 2014). Based on the PEFA Fieldguide as well as considering para 2.102 of the GFSM 2014, the NPPF is not considered an EBU for the purpose of PI-6 in the present assessment.

<sup>22</sup> The expenditure and revenue of the local governments have been excluded as these are considered Sub-National Government for the current PEFA assessment.

### 6.3 Financial reports of extra-budgetary units

3.62. **Performance level and evidence for scoring of the dimension:** Trust Funds in Bhutan are established by Royal Charter, which requires them to submit activity and annual financial reports within six months of the end of the financial year (e.g., Bhutan Trust Fund for Environmental Conservation Royal Charter, Section IX). The revenue and expense accounts and financial highlights of all non-government budgetary funds are included in the National Budget Report (Chapter 7).

3.63. PI-6.3 has been assessed based on the Bhutan Health Trust Fund (BHTF) and the Bhutan Trust Fund for Environmental Conservation (BT FEC), which together comprise 92.2% of total EBU expenditures for FY 2020/21. The details of the BHTF's and BT FEC's latest financial reports are shown in the table below.

**Table 3.18: Financial reports of extra-budgetary units**

Extra-budgetary unit (EBU)	EBU financial year	Date of AFS received by government	Content of AFS (Y/N)			Expenditure as a percentage of total EBU expenditure
			Expenditures and revenues by economic classification	Financial and non-financial assets and liabilities	Guarantees and long-term obligations	
Bhutan Health Trust Fund <sup>23</sup>	July-June	27.09.2021	Yes	Yes	Yes	81.5
Bhutan Trust Fund for Environmental Conservation <sup>24</sup>	July-June	03.11.2021	Yes	Yes	Yes	10.7
<b>Total</b>						<b>92.2</b>

3.64. The financial reports of the BHTF and the BT FEC were submitted to the RGoB within three months and four months, respectively, from the end of the financial year.

3.65. Based on the analysis and supporting evidence, the score for the dimension is B.

3.66. **Performance change since the previous assessment:** The score for the PI 6.3 has improved from D in 2016 to B in 2022. This is due to an improvement in the submission of financial reports by EBUs to the RGoB.

### PI-7. Transfers to subnational governments

3.67. This indicator assesses the transparency and timeliness of transfers from central government to subnational governments with direct financial relationships to it. It considers the basis for transfers from central government and whether subnational governments receive information on their allocations in time to facilitate budget planning.

<sup>23</sup> <https://www.bhtf.bt/resources/3>.

<sup>24</sup> <https://www.bhutantrustfund.bt/wp-content/uploads/2021/12/Audit-report-FY-2020-21.pdf>. The date mentioned in the table is the date of the audit report (taken as proxy for the date of submission to government).

**Table 3.19: Minimum scoring requirements for PI-7**

Score	Minimum requirements for scores
<b>PI-7.1 System for allocating transfers</b>	
A	The horizontal allocation of <b>all</b> transfers to subnational governments from central government is determined by transparent, rule based systems.
B	The horizontal allocation of <b>most</b> transfers to subnational governments from central government is determined by transparent, rule based systems.
C	The horizontal allocation of <b>some</b> transfers to subnational governments from central government is determined by transparent, rule based systems.
D	Performance is less than required for a C score.
<b>PI-7.2 Timeliness of information on transfers</b>	
A	The process by which subnational governments receive information on their annual transfers is managed through the regular budget calendar, which is generally adhered to and provides clear and sufficiently detailed information for subnational governments to allow at least six weeks to complete their budget planning on time.
B	The process by which subnational governments receive information on their annual transfers is managed through the regular budget calendar, which provides clear and sufficiently detailed information for subnational governments to allow at least four weeks to complete their budget planning on time.
C	Substantial delays may be experienced in implementation of the budget procedures. Information on annual transfers to subnational governments is issued before the start of the subnational governments' fiscal year, which could be after budget plans are decided.
D	Performance is less than required for a C score.

**Table 3.20: Summary of scores for PI-7 and performance table**

Indicator/Dimension	2016 Score	2022 Score	Brief justification for score
<b>PI-7. Transfers to subnational governments</b>	<b>NA</b>	<b>A</b>	Scoring method M2
7.1 System for allocating transfers	NA	A	The horizontal allocation of all transfers from the central government to local governments (LGs) is determined by transparent and rules-based systems.
7.2 Timeliness of information on transfers	NA	A	The LGs receive information on their annual transfers through the Budget Call Circular with clear guidelines on how to prepare their budget. The guidelines provide clear and sufficiently detailed information to allow at least six weeks for the LGs to complete their budget planning on time.

3.68. LGs in Bhutan comprise of Dzongkhags, Gewogs and Thromdes, and are governed by the Local Government Act, 2009. At the time of the PEFA 2016 assessment, LGs were not deemed to meet the criteria of subnational government and were rather considered as deconcentrated units of the central government, and hence PI-7 was assessed but not scored.

Based on the present definition, the LGs qualify as subnational governments.<sup>25</sup> Accordingly, PI-7 has been assessed and scored in the present assessment. A ‘Note on Local Governments’ is provided in Annex 6.

3.69. The Constitution provides that “*power and authority shall be decentralized and devolved to the elected Local Governments to facilitate direct participation of the people in the development and management of their own social, economic and environmental well-being*”. The Constitution further provides that “*Local Governments shall be entitled to adequate financial resources from the Government in the form of annual grants*”. In line with these, the MoF provides the budget to LGs in the form of annual grants based on annual grants guidelines.<sup>26</sup> For now, only the RGoB financing is provided as a grant.

### 7.1 System of allocating transfers

3.70. **Performance level and evidence for scoring of the dimension:** A Resource Allocation Formula (RAF) was introduced in the 10<sup>th</sup> FYP (2008-2013) and continued in the 11<sup>th</sup> FYP (2013-2018). The RAF for budget allocations to Dzongkhags and Gewogs was based on four criteria: (i) population; (ii) geographical area; (iii) poverty; and (iv) transport cost index (from the 11<sup>th</sup> FYP). Budget allocations to the Thromdes were needs based. However, based on the priority of the RGoB, the RAF for 12<sup>th</sup> FYP (2018-2023) has been revised. Now, 12<sup>th</sup> FYP resources to class “A” Thromdes are also being allocated using the RAF. The revised formula takes into consideration specific needs/priorities of different levels of LGs as follows<sup>27</sup> (the Plan Guidelines provide the indicative allocation for each LG at all levels):

- **Dzongkhags:** Economy (40%), GNH index (15%), Health (10%), Education (10%), Culture (10%), Environment (15%).
- **Thromdes:** Population (15%), GNH index (10%), Environment (15%), Health (30%), Education (15%), Safety (10%), Culture (5%).
- **Gewogs:** Population (15%), GNH index (10%), Farming (15%), Health (20%), Education (5%), Poverty (15%), Transportation (20%).

3.71. RGoB-funded activities are provided in the form of annual grants and segregated between Current Grant and Capital Grant. The activities financed by the externally funded projects are provided as tied grants for implementation of specific programs/activities. The capital grants amount is determined based on the RAF allocation of each LG. Horizontal allocations are approved by Parliament and allocation to individual LGs are specified in the National Budget Report and the Budget Appropriation Act, issued at the start of the fiscal year. The Finance Committee of the respective LGs apportion and seek the necessary approval from the respective councils and thereafter execute the activities. The annual grants are provided in the MYRB, and funds releases and accounting are regulated through e-PEMS.

---

<sup>25</sup> Subnational government (SNG): Any level of government below the national level (state/provincial or regional and local), provided these entities have the authority to own assets, incur liabilities, and/or engage in transactions in their own right. The right to borrow is not a requirement for treatment as a subnational government in the PEFA Framework (PEFA Handbook, Volume II: PEFA Assessment Fieldguide, Second edition, December 2018, PEFA Secretariat).

<sup>26</sup> The annual grant is a proportion of the national revenue allocated to the LGs for undertaking planned programs and activities besides maintaining existing facilities, including delivery of services.

<sup>27</sup> The 12<sup>th</sup> Five Year Plan Guideline.

3.72. Besides the above, Gewogs are provided a Common Minimum Infrastructure (CMI) budget for which the purpose and horizontal allocations are provided in the 12<sup>th</sup> FYP. The allocation made under respective Gewogs for CMI activities is over and above the RAF allocation. The concept of CMI is used to reduce disparities in distribution of common public infrastructure and facilities among Dzongkhags, Gewogs, and Thromdes. The required CMI with indicative costing are determined in close consultation with LGs and central agencies.

3.73. The LGs were allocated 34% of the total budget in FY 2021/22. The resources allocated to LGs for FY 2021/22 are summarized in the table below.

**Table 3.21: Transfers to LGs in FY 2021/22 (Nu. Million)**

Category of horizontal transfer	Budget		Actuals	
	Amount	Transparent and rule-based (Y/N)	Amount	Transparent and rule-based (Y/N)
RAF Transfers to Dzongkhags (excluding CMI)	16,440.699	Yes	16,743.366	Yes
RAF Transfers to Gewogs	3,479.197	Yes	3,419.799	Yes
RAF transfers to Thromdes	3,502.994	Yes	3,554.87	Yes
CMI Grant to Gewogs	2,609.054	Yes	2,008.268	Yes
<b>Total transfers to LGs</b>	<b>26,031.944</b>		<b>25,726.303</b>	

Sources: National Budget Report for FY 2021/22 and MYRB system.

3.74. Based on the analysis and supporting evidence, the score for the dimension is A.

## 7.2 Timeliness of information on transfers

3.75. **Performance level and evidence for scoring of the dimension:** Transfers to the LGs are budgeted following the budget formulation process of the RGoB and the timeline is the same as for ministries and other central agencies. The Budget Call Circular (generally issued in December/January every year) indicates the overall allocation to each LG in terms of a percentage of the FYP allocation and this facilitates them to plan their activities and prepare the budget proposals. The budget cycle starts on 1 July and ends on 30 June. By mid-March, the budget proposals are received by the MoF. Thereafter the proposals are reviewed, discussed and finalized by the MoF, endorsed by the Cabinet and submitted to Parliament for approval. Allocations to individual LGs are specified in the National Budget Report and also in the Budget Appropriation Act, which is issued through Budget Notification at the start of the fiscal year. The Budget Calendar is generally adhered to (as assessed in PI-17.1).

3.76. The overall allocations for the RAF and the CMI funds are provided in the FYP for each LG. In the annual Budget Call Circular, the allocation for that particular year is specified for Gewogs. For instance, in the Budget Call Circular for FY 2022/23, the allocation for Gewogs was specified as 26% of the RAF allocation made in the FYP. The actual allocation may differ marginally to adjust within resources and government priority. For Dzongkhags and Thromdes, the allocation is made based on the 'fiscal position' and other parameters mentioned in the Budget Call Circular.



3.77. LGs prepare their budget based on the ceiling communicated by the MoF and, after the approval by their respective Tshogde (highest decision-making body), submits the budget to the MoF latest by mid-March, after which the process described above is followed. The LGs, therefore, are able to determine their expected allocations based on the Circular and subsequent discussions with the DPBP.

3.78. The disbursement of grants is governed by the Funds Release Guidelines (latest available as of 2022, effective 1 March 2022) and the Annual Grant Guidelines for LGs, 2022.

3.79. Based on the analysis and supporting evidence, the score for the dimension is A.

3.80. **Performance change since the previous assessment:** None.

3.81. **Recent or ongoing reform activities:** The annual grants system has been expanded to all LGs for RGoB-funded activities, which has helped deepening the decentralization process. The guidelines for the use of annual grants by the LGs have been revised to provide a clear direction on how the grants provided must be apportioned and which key focus areas the LGs should prioritize. As a result, it is expected that the investment decision made by LGs will become more efficient and effective with maximum return on investment. The RGoB issued revised Annual Grants Guidelines for Local Governments 2022, effective 1 July 2022, with the aim to “streamline the utilization of the Annual Grants by delineating areas where the Annual Grants should be spent to enhance investment decisions whilst ensuring the core mandates of the LGs are achieved”. One of the major changes in the revised guidelines was for all LGs to use the Capital Budget Proposal Format to review and apportion the budget. Further, the budget for annual grants is prioritized for activities for recovery and reconstruction of public infrastructure damaged by disasters, and curtailing non-development activities.

### **PI-8. Performance information for service delivery**

3.82. This indicator examines the service delivery information in the executive’s budget proposal or its supporting documentation, and in year-end reports or performance audits or evaluations, as well as the extent to which information on resources received by service delivery units is collected and recorded.

**Table 3.22: Minimum scoring requirements for PI-8**

Score	Minimum requirements for scores
<b>PI-8.1 Performance plans for service delivery</b>	
A	Information is published annually on policy or program objectives, key performance indicators, outputs to be produced, <u>and</u> the outcomes planned for <b>most</b> ministries, disaggregated by program or function.
B	Information is published annually on policy or program objectives, key performance indicators, <u>and</u> outputs to be produced <u>or</u> the outcomes planned for <b>most</b> ministries.
C	Information is published annually on the activities to be performed under the policies or programs for the <b>majority</b> of ministries <u>or</u> a framework of performance indicators relating to the outputs or outcomes of the <b>majority</b> of ministries is in place.
D	Performance is less than required for a C score.

PI-8.2 Performance achieved for service delivery	
A	Information is published annually on the quantity of outputs produced <u>and</u> outcomes achieved for <b>most</b> ministries disaggregated by program or function.
B	Information is published annually on the quantity of outputs produced <u>or</u> the outcomes achieved for <b>most</b> ministries.
C	Information is published annually on the activities performed for the <b>majority</b> of ministries.
D	Performance is less than required for a C score.
PI-8.3 Resources received by service delivery units	
A	Information on resources received by frontline service delivery units is collected and recorded for at least two large ministries, disaggregated by source of funds. A report compiling the information is prepared at least annually.
B	Information on resources received by frontline service delivery units is collected and recorded for at least one large ministry. A report compiling the information is prepared at least annually.
C	A survey carried out in one of the last three years provides estimates of the resources received by service delivery units for at least one large ministry.
D	Performance is less than required for a C score.
PI-8.4 Performance evaluation for service delivery	
A	Independent evaluations of the efficiency and effectiveness of service delivery have been carried out and published for <b>most</b> ministries at least once within the last three years.
B	Evaluations of the efficiency and effectiveness of service delivery have been carried out and published for the <b>majority</b> of ministries at least once within the last three years.
C	Evaluations of the efficiency or effectiveness of service delivery have been carried out for <b>some</b> ministries at least once within the last three years
D	Performance is less than required for a C score.

**Table 3.23: Summary of scores for PI-8 and performance table**

Indicator/Dimension	2016 Score	2022 Score	Brief justification for score
<b>PI-8. Performance information for service delivery</b>	<b>D+</b>	<b>C+</b>	Scoring method M2
8.1 Performance plans for service delivery	C	B	Information is published annually on program objectives, key performance indicators (KPIs), and planned outputs and outcomes for most ministries, and are determined in accordance with a defined performance management system.
8.2 Performance achieved for service delivery	D	D	The quantity of output produced, outcome achieved, and activity performed is evaluated in accordance with the defined framework, but information on actual achievement is not published.
8.3 Resources received by service delivery units	C	A	Information on resources received by frontline service delivery units (SDUs) is recorded for all ministries in the MYRB/e-PEMS, identified by source of funds. A report compiling the information is available on a real-time basis.
8.4 Performance evaluation for service delivery	D	C	The RAA has conducted independent evaluations in the form of performance audits on the efficiency and effectiveness of service delivery for some (four) ministries during the last three years.

3.83. The Government Performance Management System (GPMS) was established in 2013 and is managed by the Government Performance Management Division (GPMD) under the Prime Minister's Office (PMO).<sup>28</sup> All Ministries and Autonomous Agencies are required to prepare Annual Performance Agreements (APAs) each fiscal year.<sup>29</sup> The institutional framework, processes and systems for the APA are documented in the 'Guideline for Annual Performance Agreement Preparation, Monitoring, and Evaluation', which is a living document reviewed and revised annually to encompass changes to the APA framework. It defines the methodology for preparation, approval, and monitoring and evaluation, and specifies the APA formats and timelines. All agencies have a focal point for GPMS who are trained on the methodology.

### **8.1 Performance plans for service delivery**

3.84. **Performance level and evidence for scoring of the dimension:** The GPMS is a critical management tool to ensure accountability and performance of agencies. The Royal Civil Service Commission (RCSC) in collaboration with the Government Performance Management Division (GPMD) recently reviewed the existing APA framework and concluded that using APA evaluated scores as proxy scores for executive performance management led to misrepresentation of actual performance. APA deliverables were mostly found to be at annual output level and there was very little strategic alignment between outcome areas of the FYPs and the APAs.

3.85. The existing system was strengthened with differentiated levels of KPIs at Agency-, Ministry, Department- and Division-levels. This differentiation is intended to reflect the expected level of results (higher outcome, outcomes and output levels) in terms of impact that levels of agencies must produce which is commensurate with the scope of responsibility and influence of their position levels. The responsibility and accountability for achieving APA targets are devolved to departments/divisions within the respective ministry.

3.86. The revised APAs have three main components: (i) Business delivery, which are the core deliverables in accordance with the agency mandates; (ii) Financial management; and, (iii) Strategic human resource management. The indicators under (ii) and (iii) are provided by the MoF and the RCSC, respectively, to assign required targets to be met for efficient and effective management of public resources and human capital.

3.87. The three main sections of the revised APAs are as follows:

- **Section I:** Strategic overview of the FYP (Mission, Vision, FYP Outcomes in line with the national key results areas (NKRAs), emerging national priority, FYP Resource Outlay and FYP Targets.
- **Section II:** Annual performance targets:
  - A: Annual objectives, agency key result areas (AKRAs), outcome and output KPIs and, performance targets.

---

<sup>28</sup> On 2 October 2022, the functions of the erstwhile GPMD were merged with the MoF's DPBP for enhanced performance and accountability.

<sup>29</sup> Dzongkhags and Thromdes also fall within the purview of the APA framework, but have not been considered for the purposes of PI-8.

- B: For each KPI, its description, interventions, risk mitigation plan, budget requirement, key interventions, and means of verification.
- Section III: Annexure (budget and human resource requirements).

3.88. The APAs for FY 2022/23 were prepared and finalized for eight Ministries in accordance with the new framework. These are published on the GPMS website.<sup>30</sup> These eight Ministries accounted for the bulk of the service delivery programs of the RGoB.

3.89. Based on the analysis and supporting evidence, the score for the dimension is B.

## 8.2 Performance achieved for service delivery

3.90. **Performance level and evidence for scoring of the dimension:** The performance of actual achievement against the APA targets for all ministries and agencies are evaluated through the GPMS based on the framework provided by the GPMD. The National Technical Committee (NTC), comprising officials from five key agencies (National Statistics Bureau (NSB), MoF, Gross National Happiness Commission (GNHC), RCSC and GPMD), carries out the year-end evaluation for the APAs based on self-assessed reports submitted through the Internal Review Committee of the respective ministry/agency. The evaluated scores are submitted to the High-Power Committee (HPC) chaired by the Prime Minister/Cabinet Secretary for final endorsement. The final score of the HPC is provided to the RCSC for the year-end evaluation of individual officers.

3.91. For FY 2021/22, the APAs were prepared on the earlier methodology, but the evaluation against the APA targets was done by the NTC based on the revised framework. However, information on actual achievement is not published.

3.92. Based on the analysis and supporting evidence, the score for the dimension is D.

## 8.3 Resources received by service delivery units

3.93. **Performance level and evidence for scoring of the dimension:** The resources for service delivery functions are routed through the budget and allocated at the level of SDUs. The allocated resources are reported in the National Budget Report with details on individual activities and funding sources. Frontline SDUs, such as primary schools and health centers, are within the budget of gewogs, which are funded from the RGoB's budget through annual grants. The resources received by SDUs can be monitored by the RGoB in a variety of ways, including the e-PEMS, MYRB system and the GPMS. The systems are interconnected and rely on one another for data. The DPBP uses the e-PEMS and BMT data to monitor budget execution through the MYRB system. The Department of Treasury and Accounts (DTA) monitors the progress and releases the budget in their respective Letter of Credit (LC) accounts.

3.94. The MYRB system records the budget appropriation for the programs with the source of funding identified through Financing Item Codes (FICs). The e-PEMS, on the other hand,

---

<sup>30</sup> <https://www.gpms.gov.bt>.

records the releases made to the SDUs with details of the beneficiaries. The information on resources received by the SDUs are available in these systems on a real-time basis. Reports are produced in accordance with user requirements, for instance for a particular period, for a specific ministry, SDU or source of financing. The reports capture all resources received by each SDU in cash, including budget resources, own source revenues, and funds received from external resources, and in-kind.

3.95. Based on the analysis and supporting evidence, the score for the dimension is A.

#### **8.4 Performance evaluation for service delivery**

3.96. **Performance level and evidence for scoring of the dimension:** The RAA reports on economy, efficiency, and effectiveness, including service delivery functions, through performance audits conducted based on the ‘Performance Audit Guideline 2019’. In the last three years, the RAA had conducted five performance audits covering four ministries, as summarized in the table below.

**Table 3.24: Performance audits completed by the Royal Audit Authority (RAA)**

Ministry	Program or Service Evaluated	Year	Efficiency	Effectiveness
Ministry of Work and Human Settlement (MoWHS)	Road Maintenance Works	FY 2019/20	Yes	Yes
	Urban Planning and Development in Thimphu Thromde	FY 2019/20	Yes	Yes
Judiciary	Review of Judiciary System and Practices	FY 2019/20	Yes	Yes
Ministry of Information and Communication (MoIC)	Safe and Sustainable Road Transport System	FY 2021/22	Yes	Yes
Ministry of Agriculture and Forests (MoAF)	Farm Road Development and Management in Bhutan	FY 2021/22	Yes	Yes

3.97. Based on the analysis and supporting evidence, the score for the dimension is C.

3.98. **Performance change since the previous assessment:** PI-8.1 has improved from C in 2016 to B in 2022 as the APAs are now publicly available. PI-8.3 has improved from C in 2016 to A in 2022 due to an improved system for collection and recording information on resources received by frontline SDUs and the availability of real-time reports on such information. PI-8.4 has improved from D in 2016 to C in 2022 as the RAA has conducted performance audits on the effectiveness and efficiency of service delivery of four ministries/agencies in the last three years.

3.99. **Recent or ongoing reform activities:** The RGoB, under public service delivery initiatives, has been studying and reviewing core public services offered by agencies. While efforts for providing easier access to services are on-going, the RCSC in collaboration with the PMO has begun to add another critical dimension to service delivery by introducing a monitoring and assessment framework through real-time feedback on service experience from citizens using the Service Evaluation Tool (SET). This is expected to help improve service delivery processes end-to-end.

3.100. ‘General Service Delivery Guidelines’ have been developed that outline the responsibilities and rights that both ‘service providers’ and ‘service users’ must follow in order to achieve effective and efficient public service delivery.

3.101. Going forward, the proxy score-based performance assessment will be discontinued and the APAs will be used as a single reference document for senior civil servant performance assessments. Therefore, the guidelines for reassessment of APAs will also change and be developed accordingly.

### PI-9. Public access to fiscal information

3.102. This indicator assesses the comprehensiveness of fiscal information available to the public based on specified elements of information to which public access is considered critical.

**Table 3.25: Minimum scoring requirements for PI-9**

Score	Minimum requirements for scores
<b>PI-9.1 Public access to fiscal information</b>	
A	The government makes available to the public eight elements, including all five basic elements, in accordance with the specified time frames.
B	The government makes available to the public six elements, including at least four basic elements, in accordance with the specified time frames.
C	The government makes available to the public four basic elements in accordance with the specified time frames.
D	Performance is less than required for a C score.

**Table 3.26: Summary of scores for PI-9 and performance table**

Indicator/Dimension	2016 Score	2022 Score	Brief justification for score
<b>PI-9. Public access to fiscal information</b>	<b>D</b>	<b>B</b>	-
9.1 Public access to fiscal information	D	B	Five basic elements and two additional elements are made available to the public.

### 9.1 Public access to fiscal information

3.103. **Performance level and evidence for scoring of the dimension:** The extent to which there is public access to key fiscal information, across nine specific elements, is covered in the table below.

**Table 3.27: Public access to fiscal information**

Element/ Requirements	Met (Y/N)	Evidence used/Comments
<b>Basic elements</b>		
<b>1. Annual executive budget proposal documentation.</b> A complete set of executive budget proposal documents (as presented by the country in PI-5) is	<b>Yes</b>	When the Finance Minister presents the budget to Parliament, there is live media coverage (TV and radio) and it is also covered by the print media for the general public. The National Budget Report and the



Element/ Requirements	Met (Y/N)	Evidence used/Comments
available to the public within one week of the executive's submission of them to the legislature.		Budget Speech by the Finance Minister are uploaded on the MoF and National Assembly websites. For FY 2022/23, the National Budget Report along with the Budget Speech and Infographics were published on the website on the same day (6 June 2022) that the Budget Speech was delivered in the National Assembly. <sup>31</sup>
<b>2. Enacted budget.</b> The annual budget law approved by the legislature is publicized within two weeks of passage of the law.	<b>Yes</b>	The Royal Assent on the Budget Appropriation Act for FY 2022/23 was granted on 2 July 2022. The Act was subsequently published on the National Assembly's website on 5 July 2022. <sup>32</sup> With the approval of Parliament, the National Budget Report is considered the enacted budget.
<b>3. In-year budget execution reports.</b> The reports are routinely made available to the public within one month of their issuance, as assessed in PI-28.	<b>Yes</b>	The MoF's DPBP issues the Budget Performance Report on a quarterly basis. The four Budget Performance Reports for FY 2021/22 were published on the MoF's website on the day of their issuance (as assessed under PI-28).
<b>4. Annual budget execution report.</b> The report is made available to the public within six months of the fiscal year's end.	<b>Yes</b>	The audited AFS of the previous fiscal year is submitted for the Winter Session of Parliament, which is within six months of the fiscal year's end. The annual AFS for FY 2020/21 was published on the MoF's website on 25 November 2021. <sup>33</sup> The AFS 2021/22 was published on the MoF's website on 3 November 2022. <sup>34</sup>
<b>5. Audited annual financial report, incorporating or accompanied by the external auditor's report.</b> The reports are made available to the public within twelve months of the fiscal year's end.	<b>Yes</b>	The audited AFS, which includes the external auditor's report, is presented to Parliament and is made public on the MoF's website within six months of the fiscal year's end. The AFS for FY 2020/21 was published on the MoF's website on 25 November 2021. The audited AFS 2021/22 was published on the MoF's website on 3 November 2022.
<b>Additional elements</b>		
<b>6. Pre-budget statement.</b> The broad parameters for the executive budget proposal regarding expenditure, planned revenue, and debt is made available to the public at least four months before the start of the fiscal year.	<b>No</b>	The MoF publishes the quarterly Macroeconomic Situation Report and the quarterly Public Debt Situation Report, and also issues a Budget Call Circular prior to the start of the fiscal year. However, these documents do not constitute a Pre-Budget Statement as the Budget Call Circular does not include public debt figures (although the Circular does set out a budget strategy and plan of the government for the forthcoming fiscal year).
<b>7. Other external audit reports.</b> All non-confidential reports on central government consolidated operations are made available to the public within six months of submission.	<b>Yes</b>	As per Section 117 of the Audit Act 2018, upon tabling the Audit Reports in Parliament, the RAA may upload the reports publicly. The Annual Audit Report (AAR) for FY 2020/21 was uploaded on the RAA's

<sup>31</sup> <https://www.mof.gov.bt/publications/reports/budget-reports/>.

<sup>32</sup> [https://www.nab.gov.bt/assets/uploads/docs/acts/2022/Budget\\_Appropriation\\_Act\\_for\\_FY\\_2022-23\\_05072022.pdf](https://www.nab.gov.bt/assets/uploads/docs/acts/2022/Budget_Appropriation_Act_for_FY_2022-23_05072022.pdf).

<sup>33</sup> [https://www.mof.gov.bt/wp-content/uploads/2022/01/AFS\\_FY\\_2020-2021.pdf](https://www.mof.gov.bt/wp-content/uploads/2022/01/AFS_FY_2020-2021.pdf).

<sup>34</sup> <https://www.mof.gov.bt/wp-content/uploads/2022/11/AFSJune2022.pdf>.



Element/ Requirements	Met (Y/N)	Evidence used/Comments
		website immediately after it was tabled in Parliament on 11 November 2021. <sup>35</sup>
8. <b>Summary of the budget proposal.</b> A 'citizen's budget', and where appropriate translated into the most commonly spoken local language, is publicly available within two weeks of the executive budget proposal's submission to the legislature and within one month of the budget's approval.	<b>Yes</b>	A summary of the budget proposal is included in the annual National Budget Report and in the Infographics, which are made available to the public in both Dzongkha and English languages. Both are published on the MoF's website on the same day that the Budget Speech is presented to Parliament (6 June 2022).
9. <b>Macroeconomic forecasts.</b> The forecasts, as assessed in PI-14.1, are available within one week of their endorsement.	<b>No</b>	The budget documentation for FY 2022/23 did not show the forecasts of all key macroeconomic indicators; the National Budget Report included only two of the four required estimates (GDP growth and inflation, but not interest rates and exchange rates).

3.104. The requirements are met for five basic elements out of five, and two additional elements out of four.

3.105. Based on the analysis and supporting evidence, the score for the dimension is B.

3.106. **Performance change since the previous assessment:** The score has improved from D in 2016 to B in 2022. This is because the annual executive budget proposal, in-year budget execution reports, and the annual budget execution reports are publicly available within a specified time frame. However, the macroeconomic forecasts provided in the FY 2022/23 budget documentation do not fully meet the requirements as two key macroeconomic indicators (interest rates and exchange rates) were not included.

3.107. **Recent or ongoing reform activities:** As a part of the Civil Service Reforms, the GPMD, which is responsible for the APAs, is likely to be merged with the MoF's DPBP to enhance alignment of the budget with APA indicators. The initiative is expected to improve the quarterly Budget Performance Reports by providing nuanced details on budget performance vis-à-vis the targets set in the APAs.

## PILLAR III: Management of assets and liabilities

3.108. Effective management of assets and liabilities ensures that risks are adequately identified and monitored, public investments provide value-for-money, financial investments offer appropriate returns, asset maintenance is well planned, and asset disposal follows clear rules. It also ensures that debt service costs are minimized and fiscal risks are adequately monitored so that timely mitigating measures may be taken.

<sup>35</sup> <https://www.bhutanaudit.gov.bt/wp-content/uploads/2021/12/AAR-2020-21-Volume-1-English.pdf>.

### PI-10. Fiscal risk reporting

3.109. This indicator measures the extent to which fiscal risks to central government are reported. Fiscal risks can arise from adverse macroeconomic situations, financial positions of subnational governments or public corporations, and contingent liabilities from the central government’s own programs and activities, including extra-budgetary units. They can also arise from other implicit and external risks such as market failure and natural disasters.

**Table 3.28: Minimum scoring requirements for PI-10**

Score	Minimum requirements for scores
<b>PI-10.1 Monitoring of public corporations</b>	
A	Audited annual financial statements for <b>all</b> public corporations are published within six months of the end of the fiscal year. A consolidated report on the financial performance of the public corporation sector is published by central government annually.
B	Audited annual financial statements are published for <b>most</b> public corporations within six months of the end of the fiscal year.
C	Government receives financial reports from <b>most</b> public corporations within nine months of the end of the fiscal year.
D	Performance is less than required for a C score.
<b>PI-10.2 Monitoring of subnational governments</b>	
A	Audited annual financial statements for <b>all</b> subnational governments are published within nine months of the end of the fiscal year. A consolidated report on the financial position of <b>all</b> subnational governments is published at least annually.
B	Audited annual financial statements for <b>most</b> subnational governments are published at least annually within nine months of the end of the fiscal year.
C	Unaudited reports on the financial position and performance of the <b>majority</b> of subnational governments are published at least annually within nine months of the end of the fiscal year.
D	Performance is less than required for a C score.
<b>PI-10.3 Contingent liabilities and other fiscal risks</b>	
A	A report is published by central government annually that quantifies and consolidates information on <b>all</b> significant contingent liabilities and other fiscal risks of central government.
B	Central government entities and agencies quantify <b>most</b> significant contingent liabilities in their financial reports.
C	Central government entities and agencies quantify <b>some</b> significant contingent liabilities in their financial reports.
D	Performance is less than required for a C score.

**Table 3.29: Summary of scores for PI-10 and performance table**

Indicator/Dimension	2016 Score	2022 Score	Brief justification for score
<b>PI-10. Fiscal risk reporting</b>	<b>A</b>	<b>C</b>	Scoring method M2
10.1 Monitoring of public corporations	A	D	Public corporations (PCs) produce audited financial statements and some publish them. Delays have been observed in publishing audited financial statements. While the RGoB receives financial reports from PCs, some are received late.

10.2 Monitoring of subnational governments	NA	D	A consolidated report on the financial position of all local governments (LGs) is published annually as part of the RAA's annual report.
10.3 Contingent liabilities and other fiscal risks	A	A	All significant contingent liabilities and other fiscal risks are reported in the National Budget Report and the AFS of the RGoB.

### 10.1 Monitoring of public corporations

3.110. **Performance level and evidence for scoring of the dimension:** As per the GFSM 2014, the PC subsector consists of all resident corporations controlled by government units or by other PCs. In 2020, the PC portfolio of the RGoB consisted of 38 companies: 15 PCs, including the Druk Holding and Investments (DHI) Limited, under the MoF, 2 under the Queen's Project Office and 21 under DHI.<sup>36</sup>

**Table 3.30: Financial reports of PCs**

Public Corporations (PCs)	Year Covered	Financial Statements Audited?	Total Expenditure (Nu. Million)	As a % of Total Expenditure of PCs	Are Contingent Liabilities of the PCs disclosed in the Financial Report? (Y/N)
Bhutan Broadcasting Service Corporation Limited (BBSCL) <sup>37</sup>	2020	Yes	327.3	1.4	Yes
Bhutan Development Bank Limited (BDBL) <sup>38</sup>	2020	Yes	735.4	3.2	Yes
Bhutan Duty Free Limited (BDFL)	2020	Yes	26.6	0.1	Yes
Bhutan Livestock Development Corporation Limited (BLDCL) <sup>39</sup>	2020	Yes	236.2	1.0	Yes
Bhutan Lottery Limited (BLL)	2020	Yes	126.8	0.6	Yes
Bhutan Postal Corporation Limited (BPCL) <sup>40</sup>	2021	Yes	224.9	1.0	Yes
Druk Holding and Investments (DHI) Limited (and Subsidiaries) <sup>41</sup>	2020	Yes	17,856.3	77.7	Yes
Farm Machinery Corporation Limited (FMCL)	2020	Yes	215.7	0.9	Yes
Food Corporation of Bhutan Limited (FCBL) <sup>42</sup>	2021	Yes	2,518.1	11.0	Yes
Green Bhutan Corporation Limited (GBCL) <sup>43</sup>	2020	Yes	56.9	0.2	Yes
KUENSEL Corporation Limited (KCL)	2020	Yes	155.2	0.7	Yes
National CSI Development Bank Limited	2021	Yes	97.2	0.4	Yes

<sup>36</sup> <https://www.mof.gov.bt/wp-content/uploads/2022/02/SOEAnnualReport2020.pdf>.

<sup>37</sup> <http://www.bbs.bt/news/wp-content/uploads/2021/10/Annual-report-2020-for-upload.pdf>.

<sup>38</sup> <https://bdb.bt/wp-content/uploads/2022/04/Annual-Report-2020-.pdf>.

<sup>39</sup> <https://bhutanlivestock.bt/wp-content/uploads/2022/07/Annual-2020.pdf>.

<sup>40</sup> <https://www.bhutanpost.bt/wp-content/uploads/2017/documents/ar2021.pdf>.

<sup>41</sup> [https://drive.google.com/file/d/1JXj\\_xUjitUNU8ag11gSdI9BL0V3XanWj/view](https://drive.google.com/file/d/1JXj_xUjitUNU8ag11gSdI9BL0V3XanWj/view).

<sup>42</sup> <https://www.fcbl.bt/report/Annual%20Report%202021.pdf>.

<sup>43</sup> <https://gbcl.bt/wp-content/uploads/2018/05/Annual-Report-2020-1.pdf>.

Public Corporations (PCs)	Year Covered	Financial Statements Audited?	Total Expenditure (Nu. Million)	As a % of Total Expenditure of PCs	Are Contingent Liabilities of the PCs disclosed in the Financial Report? (Y/N)
National Housing Development Corporation Limited (NHDCL)	2021	Yes	133.7	0.6	Yes
National Pension and Provident Fund (NPPF) Limited <sup>44</sup>	2020	Yes	133.8	0.6	Yes
Royal Bhutan Helicopter Services Limited (RBHSL)	2020	Yes	131.2	0.6	Yes
<b>Total</b>			<b>22,975.3</b>		

Source: Financial reports of the PCs.

3.111. The operational and financial performance of PCs under the MoF are reviewed and monitored by the Investment and Corporate Governance Division (ICGD) under the DMDF. As per Article 88 of the Audit Act 2018, the accounts of the PCs are audited by the RAA. It follows from Articles 93 of the PFA 2007, that PCs shall prepare annual reports, including audited financial statements, in accordance with The Companies Act 2016. Section 267 states that: *“Every company shall prepare and file with the Registrar an annual return for the period relating to the financial year ended on 31<sup>st</sup> December, every year, containing the prescribed particulars.”* Section 268 states that: *“Every listed company shall file the annual return with the Registrar on or before 31<sup>st</sup> May, and the other companies, namely, the unlisted public companies and private companies shall file the annual return with the Registrar on or before 31<sup>st</sup> July, every year, along with the financial statements for the year ended 31<sup>st</sup> December, auditor’s report where applicable and directors’ report duly authenticated by at least one director and the Chief Executive Officer.”* According to Section 94 of the PFA 2007, the Finance Minister shall present the annual report of PCs to Parliament. Due to the COVID-19 pandemic, there were delays in PCs producing audited financial statements in 2020 and 2021 as well as delays in publishing financial statements and transferring financial reports to the MoF.

3.112. The ICGD also publishes a consolidated report on the financial performance of all PCs, which is available on the MoF’s website.<sup>45</sup> The last published report was for 2020. The public has unrestricted access to all reports.

3.113. Based on the analysis and supporting evidence, the score for the dimension is D.

## **10.2 Monitoring of subnational governments**

3.114. **Performance level and evidence for scoring of the dimension:** Bhutan’s LGs – Dzongkhags, Gewogs, and Thromdes – have a direct fiscal relation with the RGoB in that their spending is subject to approval from the RGoB budget. However, the LGs do not have separate tax laws, and cannot issue guarantees or seek loans from other entities.

3.115. The external audit of the LGs’ AFS is carried out by the RAA as part of its annual audit. The RAA’s AARs contain only limited information on LG expenditures and receipts.

<sup>44</sup> <http://www.nppf.org.bt/wp-content/uploads/2022/08/2020-2021-Annual-Report.pdf>.

<sup>45</sup> <https://www.mof.gov.bt/wp-content/uploads/2022/02/SOEAnnualReport2020.pdf>.

3.116. The audited AFS for all LGs are published as a consolidated report on the MoF website within six months of the end of the fiscal year. Individual LGs neither publish their audited AFS nor unaudited reports on their financial position and performance

3.117. Based on the analysis and supporting evidence, the score for the dimension is D.

### **10.3 Contingent liabilities and other fiscal risks**

3.118. **Performance level and evidence for scoring of the dimension:** The MoF is empowered by Article 132 of the PFA 2007 to provide a guarantee and indemnity in respect of the performance of a budgetary body, PC, or organization. EBU's comprise eight trust funds (Government Non-Budgetary Funds) which have no contingent liabilities.

3.119. Information on the fiscal risk arising from direct liabilities and contingent liabilities is monitored by the DMDF.<sup>46</sup> Information on direct liabilities arising from budgetary expenses, and debt servicing and contingent liabilities from government guarantees, subsidies to PCs, guarantees by PCs, and natural disaster are quantified and included in the annual National Budget Report and the AFS submitted to Parliament. A separate report is not prepared.

3.120. Government guarantees are the outstanding guarantees issued.<sup>47</sup> The liabilities arising from natural disasters are quantified and budgeted based on the expenditure incurred in the past fiscal year.

3.121. Based on the analysis and supporting evidence, the score for the dimension is A.

3.122. **Performance change since the previous assessment:** The score for PI-10.1 has changed from A in 2016 to D in 2022. This is because some PCs now, unlike in 2016, publish and submit their audited AFS to the MoF with delay. PI-10.2 was assessed but not scored in 2016 as, at the time, LGs were not deemed to meet the criteria of sub-national governments (SNGs); rather they were considered to be deconcentrated units of the central government. Based on the present definition, the LGs now qualify as subnational governments (see PI-7), and PI-10.2 has therefore been assessed as well as scored in the present assessment

### **PI-11. Public investment management**

3.123. This indicator assesses the economic appraisal, selection, costing, and monitoring of public investment projects by the government, with emphasis on the largest and most significant projects.

**Table 3.31: Minimum scoring requirements for PI-11**

Score	Minimum requirements for scores
<b>PI-11.1 Economic analysis of investment projects</b>	
A	Economic analyses are conducted, as established in national guidelines, to assess <i>all</i> major investment projects and the results are published. The analyses are reviewed by an entity other than the sponsoring entity.

<sup>46</sup> This includes contingent liabilities of PCs.

<sup>47</sup> This includes guarantees by PCs.

B	Economic analyses are conducted, as established in national guidelines, to assess <b>most</b> major investment projects, and <b>some</b> results are published. The analyses are reviewed by an entity other than the sponsoring entity.
C	Economic analyses are conducted to assess <b>some</b> major investment projects.
D	Performance is less than required for a C score.
<b>PI-11.2 Investment project selection</b>	
A	Prior to their inclusion in the budget, <b>all</b> major investment projects are prioritized by a central entity on the basis of published standard criteria for project selection.
B	Prior to their inclusion in the budget, <b>most</b> major investment projects are prioritized by a central entity on the basis of standard criteria for project selection.
C	Prior to their inclusion in the budget, <b>some</b> of the major investment projects are prioritized by a central entity.
D	Performance is less than required for a C score.
<b>PI-11.3 Investment project costing</b>	
A	Projections of the total life-cycle cost of major investment projects, including both capital and recurrent costs together with a year-by-year breakdown of the costs for at least the next three years, are included in the budget documents.
B	Projections of the total capital cost of major investment projects, together with a year-by-year breakdown of the capital costs and estimates of the recurrent costs for the next three years, are included in the budget documents.
C	Projections of the total capital cost of major investment projects, together with the capital costs for the forthcoming budget year, are included in the budget documents.
D	Performance is less than required for a C score.
<b>PI-11.4 Investment project monitoring</b>	
A	The total cost and physical progress of major investment projects are monitored during implementation by the implementing government unit. There is a high level of compliance with the standard procedures and rules for project implementation that have been put in place. Information on the implementation of major investment projects is published in the budget documents or in other reports annually.
B	The total cost and physical progress of major investment projects are monitored by the implementing government unit. Standard procedures and rules for project implementation are in place, and information on implementation of major investment projects is published annually.
C	The total cost and physical progress of major investment projects are monitored by the implementing government unit. Information on implementation of major investment projects is prepared annually.
D	Performance is less than required for a C score.

**Table 3.32: Summary of scores for PI-11 and performance table**

Indicator/Dimension	2016 Score	2022 Score	Brief justification for score
<b>PI-11. Public investment management</b>	<b>C+</b>	<b>D+</b>	Scoring Method M2
11.1 Economic analysis of investment projects	C	D	Implementing agencies prepare Detailed Project Reports (DPRs) or Initial Project Documents (IPDs), and also detailed feasibility studies. Although some socio-economic impacts are discussed in DPRs/IPDs, economic-analysis (i.e., cost-benefit analysis)

			is not done systematically. While economic analysis is done for development partner-funded projects, this does not concern most major investment projects.
11.2 Investment project selection	A	C	The RGoB's Flagship Program Guidelines include selection criteria. Likewise certain new major investment projects have guidelines that are also issued to relevant sectors. Prior to inclusion in the budget, some major investment projects are prioritized by a central entity, the GNHC, on the basis of published standard criteria (plan targets, annual targets, budget write-up format, and other aspects specified in the Budget Call Notification). Following its dissolution, the GNHC's functions for project identification and formulation have been transferred to the MoF's DPBP and DMFDF.
11.3 Investment project costing	C	D	While projections of the total capital cost of major investment projects, together with a year-by-year breakdown of capital costs and estimates of recurrent costs for the next three years, are available at the aggregate level, project-wise are not available. Budget documents only contain capital cost projections for the forthcoming year.
11.4 Investment project monitoring	C	B	The three-level monitoring is done by: (i) site engineers; (ii) implementing agencies; and, (iii) central coordinating agencies (the erstwhile GNHC and the MoF). Monthly and quarterly progress reports are prepared and shared with stakeholders, including development partners where agreed. There is a vast corpus of rules, regulations and guidelines defining standard procedures and rules for project implementation. Implementing agencies on a regular basis monitor total costs and physical progress of projects. Information on major investment projects is published on an annual basis.

3.124. Capital expenditures, as per the Financial Rules and Regulations (FRR) 2016, are investments that have future returns. They include acquisition of goods and services, the benefits of which extend beyond the fiscal year and which add to the RGoB's assets. Examples are acquisition of land, buildings, structures, plants, equipment, and vehicles. Capital expenditure includes all investment projects such as construction of roads, bridges, power projects, schools, and hospitals. The seven largest ongoing investment projects (measured by total investment costs) are shown in the table below.



**Table 3.33: List of major investment projects**

#	Project	Total Project Cost (Nu. Million)	Budget FY 2021/22 (Nu. Million)	Funding
1	Construction of 150 Bedded Gyaltsuen Jetsun Pema Mother and Child Hospital in Thimphu	1,329.00	316.00	Government of India (Gol)
2	Health Flagship Program	770.33	478.15	Program Grant (PG)
3	Construction of 65 Bedded Mother and Child Hospital at Mongar	935.00	200.00	Gol
4	Construction of Information and Communications Technology (ICT) Lab	900.00	91.00	Gol
5	Digital Druknyul Flagship	2,446.00	1,009.58	PG, Trade Support Facility (TSF), Gol, ADB
6	Development of Dry Ports	2,200.00	560.74	TFS
7	Construction of Royal Institute of Law in Paro	800.000	140.00	Gol

3.125. LGs are not included in the above table, while EBUs are not relevant (given that they are trust funds). The listed projects are the only seven projects meeting the criteria – they are the only ones for which total investment cost exceed 1% of expenditures.

### **11.1 Economic analysis of investment projects**

3.126. **Performance level and evidence for scoring of the dimension:** The public investment management (PIM) function is decentralized, and feasibility studies and economic analyses of projects are undertaken at the ministry-/agency-level. There are guidelines for specific projects – e.g., construction of roads, farm roads, schools, hospitals, and hydropower plants – which are issued by the concerned agencies. For example, the flagship programs included in the above table were proposed by the implementing agencies based on national guidelines issued by the GNHC. During project formulation, Detailed Feasibilities Studies (DFSs) are conducted for most projects. Initial Project Documents (IPDs), covering project rational, location, objectives, scope, implementing agencies and costs, are also prepared. Guidelines for economic analysis (i.e., cost-benefit analysis) are under preparation, but are yet to be published and applied. Economic assessments are undertaken for projects financed by some development partners, although this concerns only one of the major investment projects (project no. 5).

3.127. Proposals submitted by implementing agencies are reviewed by the erstwhile GNHC and the MoF, then submitted to Cabinet for approval and, if approved, implemented. The details of approved projects, including total budget allocations, are published on the website of the implementing agencies. Project progress is updated during implementation, and information published in the public domain. Information on implementation of major investment projects is prepared and published annually.

3.128. Based on the analysis and supporting evidence, the score for the dimension is D.

## **11.2 Investment project selection**

3.129. **Performance level and evidence for scoring of the dimension:** Development work is guided by the FYP which specifies the overall national objectives and targets to be achieved during the plan period. The national-level guidelines for preparation of agency-level plans are issued along with the identified NKRA, AKRA, and Local Government Key Result Areas (LGKRAs). Up to 2022, when it was dismantled and its units integrated into PMO and MoF, the GNHC led the preparation of the plans outlining what agencies expect to do in the next five years. The GNHC had developed a policy screening tool that is used to assess policy proposals across nine domains and 22 variables.

3.130. Prior to 2022, the GNHC issued Flagship Program Guidelines that include selection criteria. During the annual planning and budgeting process, the budgetary bodies are guided by the Budget Call Notification as well as alignment of projects to the FYP projects and APA targets. Investment project proposals were reviewed by the National Technical Committee, which comprised members from the GNHC, MoF and GPMD. The review outcome was presented to the High-Power Committee and, thereafter, to Cabinet for endorsement. For the period under review, 43% of the major investment projects were subject to the selection process as per the Flagship Program Guidelines, hence these projects were prioritized based on the published standards and guidelines prior to inclusion in the budget.

3.131. Based on the analysis and supporting evidence, the score for the dimension is C.

## **11.3 Investment project costing**

3.132. **Performance level and evidence for scoring of the dimension:** All investment projects have to be included in the FYP of the concerned ministries. One of the bases used to determine the plan outlay (allocation) for central agencies are the investment proposals submitted by the agencies. As such, the identification of investment projects for inclusion in the FYP should be supported by project costing. During the annual budget preparation process, the MYRB system has a provision wherein the budgetary bodies can indicate the budget plan for major multi-year projects. In addition, starting FY 2022/23, the capital budget write-up format has a provision wherein the budgetary bodies had to indicate the financial plan for each project, including the recurrent cost implication of the proposed activities. However, all this is not yet reported in detail in the National Budget Report, although it is covered in the MTF.

3.133. Only major projects are separately listed in the National Budget Report. Budget documents include the capital cost for the next budget year of major investment projects.

3.134. Based on the analysis and supporting evidence, the score for the dimension is D.

## **11.4 Investment project monitoring**

3.135. **Performance level and evidence for scoring of the dimension:** The MoF's 2016 Budget Manual specifies that the goal of a monitoring shall be to check progress of the capital expenditures. Financial and physical progress of major investment projects is monitored at the level of the departments through Project Steering Committees and, centrally, by the MoF and,

up to its dismantlement, the GNHC from time to time as necessary. Information on implementation of such projects is prepared after each monitoring visit and submitted to the specific department and to development partners, as relevant.

3.136. Before the execution of the approved budget, the budgetary bodies (including EBUs) are mandated to submit a work plan for each approved activity using the BMT without which the released forecast cannot be submitted. The financial plan updated in the BMT is used as a basis for monthly release forecasts. On a quarterly basis, agencies have to report on the physical progress of each activity using the BMT.

3.137. There is a set of standard rules and regulations for project monitoring. This includes the PFA 2007, FRR 2016, Procurement Rules and Regulations (PRR) 2019, national monitoring and evaluation framework, and project documents wherein the work plan and project implementation plan are outlined.

3.138. In addition, as required by the FRR 2016, the mid-year budget review is also carried out annually wherein the major change in the work plan (both physical and financial plan) is being facilitated based on the ground realities. Accordingly, the targets set in the APAs are also being revisited and revised.

3.139. The major projects progress updates for both financial and physical are being updated and made available in the public domain.

3.140. Based on the analysis and supporting evidence, the score for the dimension is B.

3.141. **Performance change since the previous assessment:** The scores in PI-11.1, PI-11.2, and PI-11.3 have changed because the PEFA Fieldguide (2018) provides more granular guidance of the scoring criteria. In addition, the score for PI-11.1 has changed from C in 2016 to D in 2022. In the absence of national guidelines for economic appraisal, only major investment projects funded by donors were subject to economic appraisal during the period under review. Hence, as fewer major investment projects were funded by development partners during the period under review, the number of major projects subject to economic appraisal was significantly reduced and led to the change in the score of PI-11.1. The score for PI-11.2 has changed from A in 2016 to C in 2022 because there are fewer flagship programs qualifying as major investment projects and only flagship programs were subject to the investment project selection mechanism during the period under review. The score for PI-11.3 has changed from C in 2016 to D in 2022, which is due to the PEFA Fieldguide (2018) provides more granular guidance of the scoring criteria. The score for PI-11.4 has improved from C in 2016 to B in 2022 due to an increase in transparency with regards to project monitoring (more information available and published).

3.142. **Recent or ongoing reform activities:** The RGoB is currently preparing guidelines for the economic evaluation of projects. Efforts are also being made to strengthen project costing by enhancing information about major investment projects in budget documents and improving monitoring and evaluation (by strengthening compliance with rules and standard operating procedures). A re-organization is under implementation and, as part of this, the GNHC has been dissolved and project monitoring functions transferred to other agencies.

## PI-12. Public asset management

3.143. This indicator assesses the management and monitoring of government assets and the transparency of asset disposal.

**Table 3.34: Minimum scoring requirements for PI-12**

Score	Minimum requirements for scores
<b>PI-12.1 Financial asset monitoring</b>	
A	The government maintains a record of its holdings in all categories of financial assets, which are recognized at fair or market value, in line with international accounting standards. Information on the performance of the portfolio of financial assets is published annually.
B	The government maintains a record of its holdings in major categories of financial assets, which are recognized at their acquisition cost or fair value. Information on the performance of the major categories of financial assets is published annually.
C	The government maintains a record of its holdings in major categories of financial assets.
D	Performance is less than required for a C score.
<b>PI-12.2 Nonfinancial asset monitoring</b>	
A	The government maintains a register of its holdings of fixed assets, land, and (where relevant) subsoil assets, including information on their usage and age, which is published at least annually.
B	The government maintains a register of its holdings of fixed assets, including information on their usage and age, which is published. A register of land, and (where relevant) subsoil assets is also maintained.
C	The government maintains a register of its holdings of fixed assets, and collects partial information on their usage and age.
D	Performance is less than required for a C score.
<b>PI-12.3 Transparency of asset disposal</b>	
A	Procedures and rules for the transfer or disposal of financial and nonfinancial assets are established, including information to be submitted to the legislature for information or approval. Information on transfers and disposal is included in budget documents, financial reports, or other reports.
B	Procedures and rules for the transfer or disposal of nonfinancial assets are established. Information on transfers and disposals is included in budget documents, financial reports, or other reports.
C	Procedures and rules for the transfer or disposal of nonfinancial assets are established. Partial information on transfers and disposals is included in budget documents, financial reports, or other reports.
D	Performance is less than required for a C score.

**Table 3.35: Summary of scores for PI-12 and performance table**

Indicator/Dimension	2016 Score	2022 Score	Brief justification for score
<b>PI-12. Public asset management</b>	<b>B</b>	<b>C+</b>	Scoring method M2
12.1 Financial asset monitoring	B	B	The RGoB maintains a record of its holdings in major categories of financial assets. These are recognized at their acquisition cost or fair value. Information on the performance of major categories of financial assets is published annually in the RMA's annual report.

12.2 Nonfinancial asset monitoring	C	C	The Department of Procurement and Properties (DPP) is in the process of implementing the web-based Government Inventory Management System (GIMS) with records of non-financial assets, including information on office equipment and inventories. The GIMS includes information on usage and age of holdings and fixed assets.
12.3 Transparency of asset disposal	A	C	Procedures and rules for the transfer and disposal of all assets are established. This includes rules on the transfer and disposal of financial and non-financial assets. Information on transfers and disposals is included in the AFS presented to Parliament.

### **12.1 Financial asset monitoring**

3.144. **Performance level and evidence for scoring of the dimension:** The role of managing financial assets is vested with the MoF and the RMA based on the FRR 2016 and the RMA Act 2010, respectively. Cash, Government Equity in PCs, and loans are monitored and reported by the MoF, while foreign reserve is monitored and reported by the RMA.<sup>48</sup>

3.145. Government equity in PCs in the form of financial assets, or capital, is monitored by the ICGD under the MoF; loans and public debt are monitored by the DCDMD under the MoF's DMDF. The PCs are required to submit audited AFS to the MoF (although, as noted under PI-12.1, there were in 2020 and 2021 delays due to the COVID-19 pandemic).

3.146. The Government maintains a record of its holdings in major categories of financial assets, which are recognized at their acquisition cost or fair value.

3.147. The RMA manages the financial assets related to money and banking such as external assets, including foreign currency reserves.

3.148. Information on the financial assets maintained by the concerned agencies is recognized at acquisition cost and is disclosed annually in the National Budget Report and the AFS, which are published. In addition, the RMA prepares and publishes an annual report in which the performance of the major categories of financial assets is included. Information on the performance of the major categories of financial assets is included in the RMA's annual report (Table 6.1.1).<sup>49</sup>

3.149. Based on the analysis and supporting evidence, the score for the dimension is B.

<sup>48</sup> The RMA prepares its accounts in compliance to Bhutan Accounting Standards (IFRS 2014 version). The following categories of financial assets are recorded: (i) Foreign currency financial assets (Cash and cash equivalents, Deposits with banks, Trading assets, Securities, IMF related assets, and Interest and other receivables); (ii) Local currency financial assets (Cash and cash equivalents, Gratuity Fund, and Loans to staff); (iii) Foreign currency non-financial assets (Monetary gold, and Other foreign currency non-financial assets); and, (iv) Local currency non-financial assets (Non-monetary gold, Inventory for banknotes, Property, plant and equipment, Intangible assets, and Other assets).

<sup>49</sup> <https://www.rma.org.bt/RMA%20Publication/Annual%20Report/Annual%20Report%202020-2021-final.pdf>.

## 12.2 Nonfinancial asset monitoring

3.150. **Performance level and evidence for scoring of the dimension:** The categories of non-financial assets for FY 2020/21 are shown in the table below.

**Table 3.36: Categories of non-financial assets for FY 2020/21**

Categories	Subcategories	Where Captured	Comments
Fixed assets	Buildings and structures	GIMS	Information is updated upon acquisition by the agencies in the GIMS
	Machinery and equipment	GIMS	Information is updated upon acquisition by the agencies in the GIMS
	Other fixed assets	N/A	N/A
Inventories	Office equipment	GIMS	Information is updated upon acquisition by the agencies in the GIMS
Non-produced assets	Land	GIMS	Information is updated upon acquisition by the agencies in the GIMS
	Sub-soil asset	Stock Registers of subsoil asset with the Ministry of Economic Affairs (MoEA)	Records on the subsoil asset is with Department of Geology and Mines, Ministry of Economic Affairs (MoEA)
	Intangible non-produced assets	N/A	N/A

3.151. The responsibilities for monitoring non-financial assets are clearly articulated in the Property Management Manual (PMM) 2016 of the FRR. The responsibility for proper accounting, safeguarding, and utilization rests with the Head of the DPP who may delegate, without disowning his/her accountability, to subordinate officials called Property Officers.

3.152. All non-expendable assets are required to be registered with the DPP, which maintains a central database and assigns an identification code to each asset. The PMM also mandates the maintenance of fixed assets registers and registers of inventories. The registers are available on request to the concerned agencies, but these are not publicly disclosed.

3.153. In essence, every agency is required to maintain the record of properties in the web-based GIMS. Government agencies must maintain accurate and up-to-date memorandum records and exercise adequate administrative, supervisory, and other controls, including physical controls over the custody and use of government property, in the GIMS.

3.154. The record for fixed assets and non-financial assets in the GIMS is complete and up-to-date with information on their usage and age.

3.155. Based on the analysis and supporting evidence, the score for the dimension is C.



### **12.3 Transparency of asset disposal**

3.156. **Performance level and evidence for scoring of the dimension:** The rules and procedures for the sale, transfer, and disposal of non-financial assets and asset usage rights are established in the PMM 2016 and are thus easily accessible. As per the PMM 2016, the DPP, or the agency authorized by the DPP, is responsible for disposal of government property. Fixing the price for property disposal is done by the DPP. All government agencies shall provide the details of the non-expendable properties acquired, received, transferred, disposed or written off to the DPP, as and when transactions take place. The PMM 2016 does not cover which information on transfer or disposal of financial and non-financial assets must be submitted to the legislature for information or approval.

3.157. The Head of Office shall hand over property declared as surplus, obsolete or unserviceable at the earliest to the DPP, unless a specific authorization has been obtained from the DPP to dispose of the property under own arrangement.

3.158. Disposal of government property must be carried out through public auctions unless otherwise stipulated. The Auction and Records Section under the Property and Procurement Management Division (PPMD) in the DPP specifically caters to the sale of non-financial assets. The decision-making process is clear and transparent, and exercised by the Auction Committee comprising the Director-General of the DPP and representatives from the MoF, Road Safety and Transport Authority (RSTA), and the Royal Bhutan Police (RBP). The DPP prepares a report after each auction and submits it to the MoF.

3.159. The rules for the disposal of financial assets relating to money and banking are established in the RMA Act 2010. Also, rules on information on transfer/disposal of financial asset have been established. Information is provided to Parliament through the National Budget Reports and the AFS. Information on the government's equity portfolio, including shareholdings, investments, divestments and transfers, are disclosed in the AFS (Tables 23 and 24 in the AFS 2020/21). For example, Menjong Sorig Pharmaceutical Corporation Limited, a PC previously overseen by the MoF, was transferred to DHI in March 2021, and Wood Craft Centre Limited was merged with the Natural Resource Development Corporation Limited, another PC under the DHI. Information relating to rental of government property is in the National Budget Report for FY 2022/23 captured under Section 4.71. (Fiscal Measures).

3.160. The GIMS captures the record for non-expandable assets if updated duly by the respective budgetary body. The records – such as date of acquisition, cost of acquisition, allocation, and transfer – can be traced from the GIMS. Although the GIMS has a module for the disposal process, this is not yet implemented by the budgetary bodies.

3.161. Based on the analysis and supporting evidence, the score for the dimension is C.

3.162. **Performance change since the previous assessment:** The score for PI-12.3 has been changed from A to C since the PMM 2016 does not cover which information on transfer or disposal of financial and nonfinancial assets must be submitted to the legislature for information or approval. This is based on the PEFA Fieldguide (2018), providing more granular guidance of the scoring criteria, which was not available at the time of the 2016 assessment.



3.163. **Recent or ongoing reform activities:** Implementation of the GIMS remains ongoing for Gewogs, schools, and regional offices.

### PI-13. Debt management

3.164. This indicator assesses the management of domestic and foreign debt and guarantees. It seeks to identify whether satisfactory management practices, records, and controls are in place to ensure efficient and effective arrangements.

**Table 3.37: Minimum scoring requirements for PI-13**

Score	Minimum requirements for scores
<b>PI-13.1 Recording and reporting of debt and guarantees</b>	
A	Domestic and foreign debt and guaranteed debt records are complete, accurate, updated, and reconciled monthly. Comprehensive management and statistical reports covering debt service, stock, and operations are produced at least quarterly.
B	B Domestic and foreign debt and guaranteed debt records are complete, accurate, and updated quarterly. <b>Most</b> information is reconciled quarterly. Comprehensive management and statistical reports covering debt service, stock, and operations are produced at least annually.
C	Domestic and foreign debt and guaranteed debt records are updated annually. Reconciliations are performed annually. Areas where reconciliation requires additional information to be complete are acknowledged as part of documentation of records.
D	Performance is less than required for a C score.
<b>PI-13.2 Approval of debt and guarantees</b>	
A	Primary legislation grants authorization to borrow, issue new debt, and issue loan guarantees on behalf of the central government to a single responsible debt management entity. Documented policies and procedures provide guidance to borrow, issue new debt and undertake debt-related transactions, issue loan guarantees, and monitor debt management transactions by a single debt management entity. Annual borrowing must be approved by the government or legislature.
B	Primary legislation grants authorization to borrow, issue new debt, and issue loan guarantees on behalf of the central government to entities specifically included in the legislation. Documented policies and procedures provide guidance for undertaking borrowing and other debt-related transactions, and issuing loan guarantees to one or several entities. These transactions are reported to and monitored by a single responsible entity. Annual borrowing must be approved by the government or legislature.
C	Primary legislation grants authorization to borrow, issue new debt, and issue loan guarantees on behalf of the central government to entities specifically included in the legislation. Documented policies and procedures provide guidance for undertaking borrowing and other debt-related transactions, and issuing loan guarantees to one or several entities. These transactions are reported to and monitored by a single responsible entity.
D	Performance is less than required for a C score.
<b>PI-13.3 Debt management strategy</b>	
A	A current medium-term debt management strategy covering existing and projected government debt, with a horizon of at least three years, is publicly reported. The strategy includes target ranges for indicators such as interest rates, refinancing, and foreign currency risks. Annual reporting against debt management objectives is provided to the legislature. The government's annual plan for borrowing is consistent with the approved strategy.
B	A current medium-term debt management strategy, covering existing and projected government debt, with a horizon of at least three years, is publicly reported. The strategy includes target ranges for indicators such as interest rates, refinancing, and foreign currency risks.

C	A current medium-term debt management strategy covering existing and projected government debt is publicly available. The strategy indicates at least the preferred evolution of risk indicators such as interest rates and refinancing, and foreign currency risks.
D	Performance is less than required for a C score.

**Table 3.38: Summary of scores for PI-13 and performance table**

Indicator/Dimension	2016 Score	2022 Score	Brief justification for score
<b>PI-13. Debt management</b>	<b>B</b>	<b>A</b>	Scoring method M2
13.1 Recording and reporting of debt and guarantees	A	A	Domestic, external debt, and guaranteed debt records are complete, accurate, updated, and reconciled monthly. A comprehensive debt portfolio analysis covering debt stock, debt service, and operations are produced and published quarterly on the MoF's website.
13.2 Approval of debt and guarantees	A	A	The PFA 2007 is the primary legislation that grants authorization to borrow and issue new debt and loan guarantees to the Finance Minister, subject to approval by the Cabinet, and are made against documented transparent criteria and fiscal targets.
13.3 Debt management strategy	D	A	A current Medium-Term Debt Management Strategy (MTDS) covers existing and projected government debt, with a horizon of three years, and is publicly reported. The strategy includes clear targets for domestic and external borrowing. The MTDS also includes a description of key costs and risks associated with borrowing, and a review of the previous debt strategy. Annual reporting against debt management objectives is provided to the legislature. The government's annual plan for borrowing is consistent with the approved strategy.

3.165. The responsibilities for management and reporting of debt are vested with the Development Coordination and Debt Management Division (DCDMD) under DMDF in coordination with other stakeholders such as the Treasury Management Division (TMD) and the RMA. The DCDMD functions as the front, middle, and back office. Realizing the need for effective debt management, the RGoB, in August 2016, adopted a Public Debt Policy. The RGoB has published a MTDS covering the period FY 2020/21 to FY 2022/23 (published on 30 March 2021) with technical support from the World Bank. The DMDF has mandated the publication of an annual Debt Sustainability Analysis (DSA) and published the first national DSA report (March 2022) with technical support from the World Bank and the International Monetary Fund (IMF).

3.166. As of 30 June 2022, the total public debt stock was Nu 257,580.3 million of which external debt (including hydro-debt) comprised of Nu 229,519.1 million being 89.1% of total

debt and domestic debt was Nu 28,061.3 million being 10.9% of total debt.<sup>50</sup> Additionally, loan guarantees as on June 30, 2022 were Nu. 5,025.876 million.

### **13.1 Recording and reporting of debt and guarantees**

3.167. **Performance level and evidence for scoring of the dimension:** The DCDMD uses the Commonwealth Secretariat-Debt Recording and Management System (CS-DRMS) for recording and managing external debt. The DCDMD uses the core functionalities of CS-DRMS to maintain a portfolio including on-lending and record transactions of disbursement and debt service payments, but other features of CS-DRMS such as portfolio analysis, scenario analysis, and forecast, are not used, and these functions are done manually. The DCDMD uses the Period End Processing utility in CS-DRMS for reconciling the external debt data for each creditor on a monthly basis.

3.168. Domestic debt in the form of Treasury Bills (T-Bills) is issued by the RMA and recorded by the TMD using spreadsheets. This is updated and reconciled monthly. The DMDF's ICGD issues and records the loan guarantees. The RGoB does not have a separate guarantee policy, but the issuance of guarantees is subjected to the PFA 2007 and the Public Debt Policy 2016. The loan guarantees are recorded in the quarterly Public Debt Situation Report. Guarantees, forming less than 2% of the public debt, are updated as and when a new one is issued or existing is extinguished or any other change occurs, but updated and reconciled at least on a quarterly basis at the time of reporting.

3.169. The external debt reports are generated through CS-DRMS on a quarterly basis for submission to the RMA, NSB, and other relevant agencies. The DCDMD publishes a quarterly Public Debt Situation Report that contains all information on domestic and external debt. The most recent report for the quarter ended June 2022 was finalized in July 2022. The report is published on the MoF Finance website for public information.<sup>51</sup>

3.170. Debt data are used as an input to ascertain macro variables during the MTFE exercise for the MoF. As a member of the World Bank Group, Bhutan submits debt data on public and publicly guaranteed debt on a loan-by-loan basis for the Debtor Reporting System (DRS). Information on debt stock, debt service, and operations are additionally available in the National Budget Report, AFS (as mandated by the PFA, 2007), and the NSB's annual Statistical Yearbook of Bhutan.

3.171. Domestic and foreign debt records are complete, accurate and updated, and reconciled monthly. The integrity of debt data is fairly high and comprehensive. Management and statistical reports covering debt, service, stock, and operations are produced at least quarterly the Public Debt Situation Report.

3.172. Based on the analysis and supporting evidence, the score for the dimension is A.

---

<sup>50</sup> MoF. 2022. *Public Debt Situation Report for the Quarter Ended 30<sup>th</sup> June 2022*. Thimphu. Public external debt includes direct corporate debt of Nu. 11,502.959 million and Central Bank debt of Nu. 7,000 million.

<sup>51</sup> [https://www.mof.gov.bt/wp-content/uploads/2022/08/PublicDebtSituationReport30\\_JUNE\\_2022.pdf](https://www.mof.gov.bt/wp-content/uploads/2022/08/PublicDebtSituationReport30_JUNE_2022.pdf).

## **13.2 Approval of debt and guarantees**

3.173. **Performance level and evidence for scoring of the dimension:** The framework for contracting loans and issuance of guarantees are articulated in the Constitution 2008 and the PFA 2007. The Constitution, Article 14, provides that:

- Section 4 – “The Government, in the public interest, may raise loans, make grants or guarantee loans in accordance with the law”.
- Section 5 – “The government shall exercise proper management of the monetary system and public finance. It shall ensure that the servicing of public debt will not place an undue burden on future generations”; and,
- Section 6 – “The Government shall ensure that the cost of recurrent expenditure is met from the internal resources of the country.”

3.174. The primary legislation that governs public debt contracting is the PFA 2007. It empowers the Finance Minister to approve borrowings and issue guarantees subject to the approval of the Cabinet. The annual borrowing program is included in the National Budget Report and approved by Parliament.

3.175. Article 126 of the Public Finance (Amendment) Act 2012 specifies the purposes for loans borrowings may be raised:

- to finance the budget deficit
- to finance a maturing debt or loan paid before the redemption date
- to maintain credit balances in the bank account
- for on-lending to the State Enterprises [PCs] and other legal entities; and,
- any other purposes approved by the Lhengye Zhungtshog [Cabinet].

3.176. PCs shall obtain the approval of the Finance Minister to borrow, and LGs may borrow only from the MoF as per PFA 2007. The controls over the levels for contracting of loans and issuance of guarantees by the RGoB are articulated in the annual budget report. These are made against transparent criteria and fiscal targets. The level of borrowing is also guided by the FYP outlay. Similarly, the Public Debt Policy 2016, MTDS, and National Budget Report set targets on the debt indicators to be achieved within the periods of the MTDS.

3.177. For instance, the National Budget Report for FY 2022/23 (para 2.3) provides the following fiscal targets and criteria for FY 2022/23.

- (i) Contain fiscal deficit below 5% of GDP during the FY 2022/23 to achieve the mid-term review target of 5%;
- (ii) Minimum GDP growth of 4.5%;
- (iii) Tax-to-GDP ratio of at least 12%;
- (iv) Recurrent expenditure to be covered by domestic revenue; and,
- (v) Non-hydro debt maintained below 35% of GDP.

3.178. The RGoB undertakes external borrowings only from multi-lateral agencies and bilateral partners. Domestic borrowings are done by issuance of public securities such as bills, T-bonds and commercial papers. The MoF, in collaboration with the RMA, prepared a long-term bond issuance strategy that lays out the type of bonds and tenors of bonds to be issued, how coupons would be determined, and the strategy to ensure a broad-based ownership of the government bond. The MoF in 2020 also approved the Rules and Regulation on the issuance of the government bonds.<sup>52</sup> Reporting on the debt management objectives is provided in the annual National Budget Report that is presented to Parliament.

3.179. Based on the analysis and supporting evidence, the score for the dimension is A.

### **13.3 Debt management strategy**

3.180. **Performance level and evidence for scoring of the dimension:** The current MTDS covers the three-year period from FY 2020/21 to FY 2022/23. The MTDS has been developed in consonance with the public debt policy objectives of (i) meeting the public sector's financing needs and timely servicing of debt, at the lowest possible cost at a prudent degree of risk in the medium to long run; and (ii) supporting the development of an efficient domestic capital in the long run. It contains the existing debt portfolio, a medium term macroeconomic outlook, a description of key costs and risks associated with borrowing (currency, interest, and refinancing risks), and a review of the previous debt strategy. The MTDS was published by the DMDF in March 2021.<sup>53</sup>

3.181. The MTDS is subject to periodic review by MoF to *“to incorporate changes in macro-fiscal position and government's cost and risk preferences”*.

3.182. The financing strategy of the National Budget Report is consistent with the objectives of the MTDS. The government' borrowing plan is contained within the Public Debt Policy threshold (non-hydro debt within 35% of GDP, external debt service to exports ratio with 25% threshold, and hydro debt service coverage ratio not lower than a threshold of 1.2).

3.183. Based on the analysis and supporting evidence, the score for the dimension is A.

3.184. **Performance change since the previous assessment:** The score for PI-13.3 has improved from D to A as the MTDS is now publicly available.

3.185. **Recent or ongoing reform activities:** The DCDMD is in the process of switching to the web-based Commonwealth Meridian system for recording and managing debt. It is expected to be completed by November 2022.

---

<sup>52</sup> <https://www.mof.gov.bt/wp-content/uploads/2020/07/RRIssuanceGovtBond2020.pdf>.

<sup>53</sup> <https://www.mof.gov.bt/wp-content/uploads/2021/03/Medium-Term-Debt-Management-Strategy-March-2021.pdf>.

## PILLAR IV: Policy based fiscal strategy and budgeting

3.186. Pillar IV is about whether the fiscal strategy and the budget are prepared with due regard to government fiscal policies, strategic plans, and adequate macroeconomic and fiscal projections.

### PI-14. Macroeconomic and fiscal forecasting

3.187. This indicator measures the ability of a country to develop robust macroeconomic and fiscal forecasts, which are crucial to developing a sustainable fiscal strategy and ensuring greater predictability of budget allocations. It also assesses the government's capacity to estimate the fiscal impact of potential changes in economic circumstances.

**Table 3.39: Minimum scoring requirements for PI-14**

Score	Minimum requirements for scores
<b>PI-14.1 Macroeconomic forecasts</b>	
A	The government prepares forecasts of key macroeconomic indicators, which, together with the underlying assumptions, are included in budget documentation submitted to the legislature. These forecasts are updated at least once a year. The forecasts cover the budget year and the two following fiscal years. The projections have been reviewed by an entity other than the preparing entity.
B	The government prepares forecasts of key macroeconomic indicators, which, together with the underlying assumptions, are included in budget documentation submitted to the legislature. These forecasts cover the budget year and the two following fiscal years.
C	The government prepares forecasts of key macroeconomic indicators for the budget year and the two following fiscal years.
D	Performance is less than required for a C score.
<b>PI-14.2 Fiscal forecasts</b>	
A	The government prepares forecasts of the main fiscal indicators, including revenues (by type), aggregate expenditure, and the budget balance, for the budget year and two following fiscal years. These forecasts, together with the underlying assumptions and an explanation of the main differences from the forecasts made in the previous year's budget, are included in budget documentation submitted to the legislature.
B	The government prepares forecasts of the main fiscal indicators, including revenues (by type), aggregate expenditure, and the budget balance, for the budget year and two following fiscal years. These forecasts, together with the underlying assumptions, are included in budget documentation submitted to the legislature.
C	The government prepares forecasts of revenue, expenditure and the budget balance for the budget year and the two following fiscal years.
D	Performance is less than required for a C score.
<b>PI-14.3 Macrofiscal sensitivity analysis</b>	
A	The government prepares a range of fiscal forecast scenarios based on alternative macroeconomic assumptions, and these scenarios are published, together with its central forecast.
B	The government prepares for internal use—a range of fiscal forecast scenarios based on alternative macroeconomic assumptions. The budget documents include discussion of forecast sensitivities.
C	The macrofiscal forecasts prepared by the government include a qualitative assessment of the impact of alternative macroeconomic assumptions.
D	Performance is less than required for a C score.

**Table 3.40: Summary of scores for PI-14 and performance table**

Indicator/Dimension	2016 Score	2022 Score	Brief justification for score
<b>PI-14. Macroeconomic and fiscal forecasting</b>	<b>B</b>	<b>C</b>	Scoring Method M2
14.1 Macroeconomic forecasts	A	C	The MFCTC prepares three-year forecasts for selected macroeconomic indicators which, together with the underlying assumptions, are included in the National Budget Reports and submitted to the legislature.
14.2 Fiscal forecasts	B	C	The forecast for fiscal indicators – including revenue, grants, expenditure, and financing – is prepared by the MFCTC. However, the forecast for the next two years is not included in the National Budget Report for FY 2022/23. It also does not include an explanation of the main differences from the forecasts made in the previous year’s budget.
14.3 Macrofiscal sensitivity analysis	C	C	The government prepares for its internal use a range of fiscal forecast scenarios based on alternative macroeconomic assumptions. The National Budget Report includes a qualitative discussion of macroeconomic risks, but no discussion of forecast sensitivities.

3.188. PI-14 covers the time period FY 2020/21, FY 2021/22, and FY 2022/23, and the corresponding National Budget Reports, budget speeches and Infographics.

### 14.1 Macroeconomic forecasts

3.189. **Performance level and evidence for scoring of the dimension:** The projection of macroeconomic variables is done on a quarterly basis to ensure macroeconomic stability and fiscal sustainability based on the macroeconomic framework.<sup>54</sup> The macroeconomic projections are done by the MFCTC at the technical level and endorsed by the policy level through the Macroeconomic Framework Coordination Committee (MFCC). The MFCC is coordinated by the MoF, and also includes representatives from other key economic agencies such as: RMA, Ministry of Economic Affairs (MoEA), GNHC, NSB, Tourism Council of Bhutan, and Ministry of Labor and Human Resources (MoLHR).<sup>55</sup>

3.190. The projections of economic indicators are done based on a set of assumptions that are clearly defined by the members of the MFCC. After the projections are endorsed by the MFCC, DMDF, which also serves as secretariat to the MFCC, submits an economic situation report with the economic update, outlook, risk and challenges, and policy recommendation to the Cabinet. The National Budget Reports contain medium-term projections of selected macroeconomic variables, including GDP growth, employment, and inflation.

<sup>54</sup> While MFCTC meetings are convened quarterly, ad hoc meetings may be scheduled based on the directives of the MFCC and the Cabinet.

<sup>55</sup> The MFCC was established in line with the PFA 2007, Clause 19, to coordinate the Government’s macroeconomic policies.



3.191. Realizing the importance of macroeconomic forecasts, the DMDF, in coordination with the relevant agencies, is reviewing the Medium-Term Macro Framework (MTMF) and projection methodology with technical support from the World Bank and the IMF. The objective is to build an efficient and user-friendly tool for a comprehensive and consistent macroeconomic analysis, with assumptions clearly defined, efficient data management, and an easy updating mechanism. The spreadsheet-based tool will include standardized and ad-hoc reports (charts and tables) and simulate policy scenarios.

3.192. Based on the analysis and supporting evidence, the score for the dimension is C.

## **14.2 Fiscal forecasts**

3.193. **Performance level and evidence for scoring of the dimension:** The MoF prepares the MTFP based on the quarterly projections of the MFCC with three-year forecasts for the main fiscal indicators including revenue (domestic revenue, other receipts, and grants), aggregate expenditure (recurrent expenditure, capital, and advance/suspense net), fiscal balance, and financing.

3.194. The MoF prepared the fiscal forecast for FY 2022/23 and the two following FYs in FY 2021/22, although, in contrast to earlier National Budget Reports, the FY 2022/23 report did not include a forecast for the two following fiscal years. This is because FY 2022/23 is the last fiscal year of the 12<sup>th</sup> FYP. The FY 2023/24 National Budget Report will include fiscal projections for the following years. The budget reports do not include an explanation of the main difference from the forecasts made in the previous year's budget.

3.195. Based on the analysis and supporting evidence, the score for the dimension is C.

## **14.3 Macroeconomic sensitivity analysis**

3.196. **Performance level and evidence for scoring of the dimension:** The MFCTC prepares projections based on different policy scenarios and assumptions for its internal use. In addition, the MoF published its first national debt sustainability analysis in March 2022,<sup>56</sup> which followed the Debt Sustainability for Low-Income Countries (LIC DSF) developed jointly by the IMF and the World Bank.<sup>57</sup> The MFCTC prepared a fiscal forecast in FY 2021/22 for FY 2022/23 and the two following FYs. While the RGoB's National Budget Reports discuss some external and domestic risks to the macroeconomic outlook in Chapter 1 (Risk and Challenges), including changes in global growth, pandemic-related uncertainties, and delays in hydropower projects, they do not include a discussion of forecast sensitivities. The new MTMF is expected to facilitate scenario analysis, which will be reflected in the upcoming National Budget Reports.

3.197. Based on the analysis and supporting evidence, the score for the dimension is C.

---

<sup>56</sup> <https://www.mof.gov.bt/wp-content/uploads/2022/03/PublicDebtSustainabilityAnalysisMarch2022.pdf>.

<sup>57</sup> <https://www.worldbank.org/en/programs/debt-toolkit/dsf>.

3.198. **Performance change since the previous assessment:** The scores for PI-14.1 and PI-14.2 have deteriorated compared to the 2016 PEFA assessment. PI 14.1 was incorrectly assessed in 2016 (the National Budget Report only included selected macroeconomic indicators). PI 14.2 deteriorated because the National Budget Report for FY 2022/23 did not include a fiscal forecast and underlying assumptions for the next two fiscal years. The overall score for PI-14 therefore changed from B in 2016 to C in 2022.

3.199. **Recent or ongoing reform activities:** As outlined under PI-14.1, the MoF is reviewing the MTMF to strengthen macroeconomic and fiscal forecasting, and facilitate sensitivity analysis. In 2022, the DMDF has started publishing a quarterly macroeconomic situation report for public information.<sup>58</sup>

### **PI-15. Fiscal strategy**

3.200. This indicator provides an analysis of the capacity to develop and implement a clear fiscal strategy. It also measures the ability to develop and assess the fiscal impact of revenue and expenditure policy proposals that support the achievement of the government’s fiscal goals.

**Table 3.41: Minimum scoring requirements for PI-15**

Score	Minimum requirements for scores
<b>PI-15.1 Fiscal impact of policy proposals</b>	
A	The government prepares estimates of the fiscal impact of all proposed changes in revenue and expenditure policy for the budget year and the following two fiscal years, which are submitted to the legislature.
B	The government prepares estimates of the fiscal impact of all proposed changes in revenue and expenditure policy for the budget year and the following two fiscal years.
C	The government prepares estimates of the fiscal impact of all proposed changes in revenue and expenditure policy for the budget year
D	Performance is less than required for a C score.
<b>PI-15.2 Fiscal strategy adoption</b>	
A	The government has adopted, submitted to the legislature, and published a current fiscal strategy that includes explicit time-based quantitative fiscal goals and targets together with qualitative objectives for at least the budget year and the following two fiscal years.
B	The government has adopted and submitted to the legislature a current fiscal strategy that includes quantitative or qualitative fiscal objectives for at least the budget year and the following two fiscal years.
C	The government has prepared for its internal use a current fiscal strategy that includes qualitative objectives for fiscal policy.
D	Performance is less than required for a C score.
<b>PI-15.3 Reporting on fiscal outcomes</b>	
A	The government has submitted to the legislature and published with the annual budget a report that describes progress made against its fiscal strategy and provides an explanation of the reasons for any deviation from the objectives and targets set. The report also sets out actions planned by the government to address any deviations, as prescribed in legislation.

<sup>58</sup> <https://www.mof.gov.bt/publications/reports/macroeconomic-update/>.

B	The government has submitted to the legislature along with the annual budget a report that describes progress made against its fiscal strategy and provides an explanation of the reasons for any deviation from the objectives and targets set.
C	The government prepares an internal report on the progress made against its fiscal strategy. Such a report has been prepared for at least the last completed fiscal year.
D	Performance is less than required for a C score.

**Table 3.42: Summary of scores for PI-15 and performance table**

Indicator/Dimension	2016 Score	2022 Score	Brief justification for score
<b>PI-15. Fiscal strategy</b>	<b>B</b>	<b>D+</b>	Scoring method M2
15.1 Fiscal impact of policy proposals	B	D	The fiscal impact of any policy passed by Parliament is captured in the revenue and expenditure projections of the current fiscal year.
15.2 Fiscal strategy adoption	C	D	The government has adopted and submitted to Parliament a current fiscal strategy that includes quantitative fiscal targets for the budget year. However, the proposed fiscal deficit target was not taken into consideration when drafting the FY 2022/23 budget.
15.3 Reporting on fiscal outcomes	B	B	The government has submitted to Parliament, along with the annual budget, a report that describes progress made against its fiscal strategy and provides an explanation of the reasons for any deviation from the objectives and targets set.

### 15.1 Fiscal impact of policy proposals

3.201. **Performance level and evidence for scoring of the dimension:** While the government is very conscious of the fiscal impact of all the policy proposals, there is no proper mechanism wherein the MoF prepares fiscal impact studies of all revenue and expenditure policy proposals. While some agencies conduct an impact study internally, these reports are not submitted to Parliament.

3.202. Any proposal related to changes in revenue is passed through Parliament. Examples include the recently passed Tax (Amendment) Act 2020, and the Customs Duty Act 2021, which streamlined the customs duty rate for the import on goods from countries other than India. The revenue impact from these acts has been captured in the revenue projections. The revenue foregone from the fiscal measures since the onset of the COVID-19 pandemic are also captured in budget projections for the current fiscal year. Similarly, additional expenditure incurred due to the pandemic, including the purchase of vaccines, have been reflected in the budget projections.

3.203. Based on the analysis and supporting evidence, the score for the dimension is D.

## **15.2 Fiscal strategy adoption**

3.204. **Performance level and evidence for scoring of the dimension:** The government's fiscal policy objective is to maintain a sustainable fiscal balance through effective management of public finance and ensuring debt sustainability. The basis for the fiscal policy objectives is drawn from relevant policies, acts and other documents, including the Constitution.

3.205. The Constitution specifies that recurrent spending should be funded through internal resources. The PFA 2007, Section 7, also stipulates that recurrent expenditures should be kept within internal resources. The Public Debt Policy 2016 provides specific debt thresholds, including for non-hydro external debt (35% of GDP).<sup>59</sup> Based on the Public Debt Policy, the MTDS for FY 2020/21-FY 2022/23 was published in March 2021 with clear targets for domestic and external borrowing. The 12<sup>th</sup> FYP (2018-2023) sets several fiscal targets, including: (i) limiting on average the fiscal deficit to 3% of GDP or less; (ii) covering at least 80% of total expenditure by domestic revenue; (iii) maintaining the tax to GDP ratio at 12%; (iv) maintaining budget variance below 3%; and, (v) maintaining non-hydro debt below 35% of GDP.

3.206. The FY 2022/23 budget report reaffirmed many of the above fiscal targets for the budget year (recurrent expenditures must be covered by domestic revenue, tax-to-GDP ratio above 12% of GDP, and non-hydro external debt below 35% of GDP), and updated the fiscal deficit target to 5% of GDP due to the COVID-19 impact.

3.207. However, the proposed fiscal deficit target was not taken into consideration when drafting the FY 2022/23 budget. The fiscal deficit is projected at 11.2% of GDP in FY 2022/23, which is significantly above the revised fiscal target of 5%. As per the latest Macroeconomic Framework (MEF) Update (August 2022), the fiscal deficit is estimated at 9.0% of GDP.<sup>60</sup>

3.208. Based on the analysis and supporting evidence, the score for the dimension is D.

## **15.3 Reporting on fiscal outcomes**

3.209. **Performance level and evidence for scoring of the dimension:** The National Budget Report for FY 2022/23 contains the fiscal outcomes of the last completed financial year (FY 2020/21) in Section 2.4, 3.3 and 4.2, and discusses deviations between the approved and the revised budget for expenditure, revenue, and the fiscal deficit. For instance, the Report mentions that total revenue and expenditure have increased in the revised budget for FY 2021/22 compared to the approved budget due to higher external grants and increase in the capital expenditure. However, the Report does not outline specific actions to address any deviations. The quarterly budget performance and macroeconomic situation reports, which are published on the MoF website,<sup>61</sup> also discuss changes between the actual and revised budget on quarterly basis.

---

<sup>59</sup> The policy provides a single threshold for total external debt at the aggregate level (25% of exports of goods and services) and sector-specific thresholds for two categories of external debt: (i) non-hydropower external debt (35% of GDP or less); and (ii) hydropower external debt (ratio of hydropower debt service to hydropower export revenue 40% or less in each year).

<sup>60</sup> <https://www.mof.gov.bt/wp-content/uploads/2022/09/Macroeconomic-Situation-Report-4th-Quarter-Update.pdf>.

<sup>61</sup> <https://www.mof.gov.bt/wp-content/uploads/2021/07/quarter3BPR2706202101.pdf>.

3.210. Based on the analysis and supporting evidence, the score for the dimension is B.

3.211. **Performance change since the previous assessment:** The performance of PI-15.1 and PI-15.2 has deteriorated because (i) the government produces fiscal impact studies only for some proposed revenue and expenditure policy changes, which are not submitted to Parliament, and (ii) the fiscal strategy has not been reflected in the National Budget Report for FY 2022/23.

3.212. **Recent or ongoing reform activities:** The projections for the next two fiscal years will be included in the National Budget Report for FY 2023/24 since the resource estimates for the 13<sup>th</sup> FYP will be finalized by then.

### *PI-16. Medium-term perspective in expenditure budgeting*

3.213. This indicator examines the extent to which expenditure budgets are developed for the medium term within explicit medium-term budget expenditure ceilings. It also examines the extent to which annual budgets are derived from medium-term estimates and the degree of alignment between medium-term budget estimates and strategic plans.

**Table 3.43: Minimum scoring requirements for PI-16**

Score	Minimum requirements for scores
<b>PI-16.1 Medium-term expenditure estimates</b>	
A	The annual budget presents estimates of expenditure for the budget year and the two following fiscal years allocated by administrative, economic, and program (or functional) classification.
B	The annual budget presents estimates of expenditure for the budget year and the two following fiscal years allocated by administrative and economic classification.
C	The annual budget presents estimates of expenditure for the budget year and the two following fiscal years allocated by administrative or economic classification.
D	Performance is less than required for a C score.
<b>PI-16.2 Medium-term expenditure ceilings</b>	
A	Aggregate and ministry-level expenditure ceilings for the budget year and the two following fiscal years are approved by government before the first budget circular is issued.
B	Aggregate expenditure ceilings for the budget year and the two following fiscal years and ministry-level ceilings for the budget year are approved by government before the first budget circular is issued.
C	Aggregate expenditure ceilings for the budget year and the two following fiscal years are approved by the government before the first budget circular is issued.
D	Performance is less than required for a C score.
<b>PI-16.3 Alignment of strategic plans and medium-term budgets</b>	
A	Medium-term strategic plans are prepared and costed for <b>most</b> ministries. <b>Most</b> expenditure policy proposals in the approved medium-term budget estimates align with the strategic plans.
B	Medium-term strategic plans are prepared for the <b>majority</b> of ministries, and include cost information. The <b>majority</b> of expenditure policy proposals in the approved medium-term budget estimates align with the strategic plans.
C	Medium-term strategic plans are prepared for <b>some</b> ministries. <b>Some</b> expenditure policy proposals in the annual budget estimates align with the strategic plans.

D	Performance is less than required for a C score.
<b>PI-16.4 Consistency of budgets with previous year's estimates</b>	
A	The budget documents provide an explanation of <b>all</b> changes to expenditure estimates between the last medium-term budget and the current medium-term budget at the ministry level.
B	The budget documents provide an explanation of <b>most</b> changes to expenditure estimates between the second year of the last medium-term budget and the first year of the current medium-term budget at the ministry level.
C	The budget documents provide an explanation of <b>some</b> of the changes to expenditure estimates between the second year of the last medium-term budget and the first year of the current medium-term budget at the aggregate level.
D	Performance is less than required for a C score.

**Table 3.44: Summary of scores for PI-16 and performance table**

Indicator/Dimension	2016 Score	2022 Score	Brief justification for score
<b>PI-16. Medium-term perspective in expenditure budgeting</b>	<b>C+</b>	<b>D</b>	Scoring method M2
16.1 Medium-term expenditure estimates	C	D	The National Budget Report for FY 2022/23 presents expenditure estimates for the budget year by administrative, economic, and functional classification, but no estimates are provided for the two following fiscal years. This was due to non-availability of 13 <sup>th</sup> FYP estimates (in the past, the two outer fiscal year projections were provided).
16.2 Medium-term expenditure ceilings	B	D	The government approves aggregate expenditure ceilings for the budget year and for the two following years before the Budget Call Circular is issued, but ministry ceilings are approved for the budget year only. This was not captured in FY 2022/23 due to non-availability of 13 <sup>th</sup> FYP estimates (although, in the past, the ceilings were projected).
16.3 Alignment of strategic plans and medium-term budgets	C	D	Entity-level strategic plans are prepared as part of the FYPs. While medium-term budgets diverge from fixed strategic plans due to changing policies and priorities, a few expenditure policy proposals align with strategic plans.
16.4 Consistency of budgets with previous year's estimates	C	D	The budget documents provide an explanation of a few changes to expenditure estimates between the first year following the budget year of the previous medium-term budget and the estimate for the budget year of the new medium-term budget at the aggregate level.

### **16.1 Medium-term expenditure estimates**

3.214. **Performance level and evidence for scoring of the dimension:** The National Budget Report for FY 2022/23 presents estimates of expenditures for the budget year, but not for the two following fiscal years allocated by administrative, economic, and functional classification. In contrast to earlier budget reports, the FY 2022/23 report did not include expenditure estimates for the two following fiscal years because FY 2022/23 is the last fiscal year in the 12<sup>th</sup> FYP. The FY 2023/24 National Budget Report is expected to include fiscal projections for the following years.

3.215. Based on the analysis and supporting evidence, the score for the dimension is D.

### **16.2 Medium-term expenditure ceilings**

3.216. **Performance level and evidence for scoring of the dimension:** Aggregate expenditure ceilings for the budget year and for the two following years are approved by the government before the Budget Call Circular is issued. However, in the absence of 13<sup>th</sup> FYP estimates, the ceilings for budgetary bodies for FY 2022/23 are not captured. The past National Budget Reports captured such expenditures ceilings on an annual basis.

3.217. Based on the analysis and supporting evidence, the score for the dimension is D.

### **16.3 Alignment of strategic plans and medium-term budgets**

3.218. **Performance level and evidence for scoring of the dimension:** Entity-level strategic plans are prepared as part of the FYPs, which guide the overall developmental areas and the costing. Emerging needs and priorities of agencies and sectors are considered and formalized during the mid-year plan review of the FYPs. Based on this, the medium-term budgets are revised accordingly, which means that the medium-term budgets may in some areas diverge from the (fixed) strategic plans due to changing policies and priorities, although a few expenditure policy proposals align with strategic plans.

3.219. Based on the analysis and supporting evidence, the score for the dimension is D.

### **16.4 Consistency of budgets with previous year's estimates**

3.220. **Performance level and evidence for scoring of the dimension:** The National Budget Report for FY 2022/23 provides an explanation of a few of the changes to expenditure estimates between the first year following the budget year of the previous medium-term budget (in the National Budget Report for FY 2021/22) and the estimate for the budget year of the new medium-term budget (FY 2022/23) at the aggregate level (Chapter 2, Table 2.4, of the National Budget Report).

3.221. Based on the analysis and supporting evidence, the score for the dimension is D.

3.222. **Performance change since the previous assessment:** The overall score (D) has deteriorated compared to the 2016 PEFA assessment (C+). This is because the National



Budget Report for FY 2022/23 does not include medium-term expenditure estimates, resulting in a lower score for PI-16.1. Also, unlike in previous years, the government only approved ministry-level ceilings for FY 2022/23 before the Budget Call Circular was issued, and not aggregate expenditure ceilings for the two following fiscal years, resulting in a lower score for PI-16.2. The score for PI-16.3 and PI-16.4 have changed from C to D, which follows from the application of the PEFA Fieldguide (2018), which provides more granular guidance of the scoring criteria, and was not available at the time of the 2016 assessment.

**3.223. Recent or ongoing reform activities:** New budget reform initiatives include the following: (i) annual grants (current and capital) were allocated to LGs from FY 2019/20 to deepen fiscal decentralization, increase flexibility in budget execution, and promote fiscal accountability, and the LG annual grant guidelines were revised to provide more clarity; (ii) block grants (recurrent) were allocated to central agencies from FY 2020/21 to increase flexibility in budget execution and promote fiscal accountability; (iii) the on-line BMT has been implemented to facilitate efficient financial planning and implementation as well as real-time physical and financial progress monitoring; (iv) the finance committee guidelines were revised to provide more clarity; and (v) a capital budget proposal template was developed and shared with budgetary bodies from FY 2022/23.

### **PI-17. Budget preparation process**

3.224. This indicator measures the effectiveness of participation by relevant stakeholders in the budget preparation process, including political leadership, and whether that participation is orderly and timely.

**Table 3.45: Minimum scoring requirements for PI-17**

Score	Minimum requirements for scores
<b>PI-17.1 Budget calendar</b>	
A	A clear annual budget calendar exists, is generally adhered to, and allows <b>all</b> budgetary units at least six weeks from receipt of the budget circular to meaningfully complete their detailed estimates on time.
B	A clear annual budget calendar exists and is largely adhered to. The calendar allows budgetary units at least four weeks from receipt of the budget circular. <b>Most</b> budgetary units are able to complete their detailed estimates on time.
C	An annual budget calendar exists and <b>some</b> budgetary units comply with it and meet the deadlines for completing estimates.
D	Performance is less than required for a C score.
<b>PI-17.2 Guidance on budget preparation</b>	
A	A comprehensive and clear budget circular or circulars are issued to budgetary units, covering total budget expenditure for the full fiscal year. The budget reflects ministry ceilings approved by the cabinet (or equivalent) prior to the circular's distribution to budgetary units.
B	A comprehensive and clear budget circular or circulars are issued to budgetary units, covering total budget expenditure for the full fiscal year. The budget reflects ministry ceilings submitted to the cabinet (or equivalent). The approval of ceilings by the cabinet may take place after the circular's distribution to budgetary units but before budgetary units have completed their submission.
C	A budget circular or circulars are issued to budgetary units, including ceilings for administrative or functional areas. Total budget expenditure is covered for the full fiscal year. The budget estimates

	are reviewed and approved by cabinet after they have been completed in every detail by budgetary units.
D	Performance is less than required for a C score.
<b>PI-17.3 Budget submission to the legislature</b>	
A	The executive has submitted the annual budget proposal to the legislature at least two months before the start of the fiscal year in each of the last three years.
B	The executive has submitted the annual budget proposal to the legislature at least two months before the start of the fiscal year in two of the last three years and submitted it before the start of the fiscal year in the third year.
C	The executive has submitted the annual budget proposal to the legislature at least one month before the start of the fiscal year in two of the last three years.
D	Performance is less than required for a C score.

**Table 3.46: Summary of scores for PI-17 and performance table**

Indicator/Dimension	2016 Score	2022 Score	Brief justification for score
<b>PI-17. Budget preparation process</b>	<b>B</b>	<b>C</b>	Scoring method M2
17.1 Budget calendar	A	A	A clear budget calendar exists and is substantially adhered to. It allows budget units around 10 weeks to meaningfully complete their detailed estimates.
17.2 Guidance on budget preparation	A	D	The Budget Call Circular for FY 2022/23 does not specify agency-wise or functional ceilings.
17.3 Budget submission to the legislature	D	D	Article 47 of the PFA 2007, as per the Public Finance (Amendment) Act 2012, states “The Minister of Finance shall present to the Parliament the Government’s Budget Appropriation Bill no later than five days preceding the budget year”. For the past three fiscal years, the budget was submitted to Parliament within one month for one year and within three weeks for two years.

### 17.1 Budget calendar

3.225. **Performance level and evidence for scoring of the dimension:** The FRR 2016 requires the Budget Call Circular to be issued between December and January. For the FY 2022/23 budget, the Budget Call Circular was issued by the DPBP on 30 December 2021. The Budget Call Circular included the timeline to submit the detailed budget estimates. The budget agencies had around 10 weeks to prepare their budget proposal, which was sufficient to complete their detailed estimates on time. As a result, all budgetary bodies completed their estimates on time (by 15 March 2022).

**Table 3.47: Budget calendar for the last budget submitted to the legislature**

	Tasks	Submission Date	Status/Responsibility
1	Determination of Resource Envelope for FY 2022-23 by MFCC (1 <sup>st</sup> Quarter).	Presented to MFCC on 30 <sup>th</sup> October 2021	Completed

	Tasks	Submission Date	Status/Responsibility
2	Presentation of Resource Envelope for FY 2022-23 to PPCM.	Presented to 131 <sup>st</sup> PPCM on 11 <sup>th</sup> December 2021 (Saturday)	Completed
3	Deliberation of Resource Envelope for FY 2022-23 in the Lhengye Zhungtshog (LZ) (Cabinet).	21 <sup>st</sup> December 2021	21 <sup>st</sup> December 2021
4	Presentation to Cabinet Ministers.	Presented to Cabinet Meet on 28 <sup>th</sup> December 2021	Presented to Cabinet Meet on 28 <sup>th</sup> December 2021
5	Issuance of Budget Call Circular for FY 2022-23 with clear guidelines on alignment of APA/APT with budget.	Issued on 30 <sup>th</sup> December 2021	Issued on 30 <sup>th</sup> December 2021
6	Presentation of the MFCC for the 2 <sup>nd</sup> quarter and update on the Resource Envelope.	11 <sup>th</sup> February 2022	11 <sup>th</sup> February 2022
7	Assessment of APA/APT for budget allocation by the High Power Committee (HPC) chaired by Hon'ble Prime Minister/Cabinet Secretary.	14 <sup>th</sup> March 2022	14 <sup>th</sup> March 2022
8	Submission of Budget Proposals to DPBP by budgetary bodies.	On or before 20 <sup>th</sup> March 2022 (Sunday)	20 <sup>th</sup> March 2022 (Sunday)
9	Macroeconomic Outlook/Performance and others (SOEs). Should be finalized by the concerned Departments and submitted to PPD [Policy and Planning Division] (refer note/table below).	21 <sup>st</sup> March 2022 (Monday)	21 <sup>st</sup> March 2022 (Monday)
10	PPD to work with the Budget Report focal to complete the first draft by 14 <sup>th</sup> April 2022.		
11	Complete the first draft of the budget Report.	15 <sup>th</sup> April 2022 (Friday)	DPBP/PPD/D MDF. 15 <sup>th</sup> April 2022 (Friday)
12	Present the Budget Report for FY 2022-23 to the PPCM.	19 <sup>th</sup> April 2022 (Tuesday)	19 <sup>th</sup> April 2022 (Tuesday)
13	MFCC Meeting.	9 <sup>th</sup> May 2022 DTA Conference Hall	9 <sup>th</sup> May 2022 DTA Conference Hall
14	PPD to coordinate with relevant divisions on the completion of their own chapters/sections in Budget Report; the draft budget report to be completed.	15 <sup>th</sup> May 2022	15 <sup>th</sup> May 2022
16	Presentation of the draft Budget Report to Lhengye Zhungtshog.	17 <sup>th</sup> May 2022	17 <sup>th</sup> May 2022
17	Translation of budget report to be completed.	23 <sup>rd</sup> May 2022	23 <sup>rd</sup> May 2022
18	Complete the draft budget speech.	23 <sup>rd</sup> May 2022	23 <sup>rd</sup> May 2022
19	Translation of the Budget Speech.	23 <sup>rd</sup> May 2022	23 <sup>rd</sup> May 2022
20	Complete the budget navigator and infographics.	23 <sup>rd</sup> May 2022	23 <sup>rd</sup> May 2022
21	Finalize Budget Report/Appropriation Bill of FY 2022-23 and Other Bills.	23 <sup>rd</sup> May 2022	23 <sup>rd</sup> May 2022
22	Seek approval of the Royal Office of Media (RoM) for the use of Royal Kubar in the Budget Report.	23 <sup>rd</sup> May 2022	23 <sup>rd</sup> May 2022
23	Seek the RMA's vetting of budget estimates.	23 <sup>rd</sup> May 2022	23 <sup>rd</sup> May 2022
24	Submit National Budget Report and other documents in digital format.	1 <sup>st</sup> June 2022	1 <sup>st</sup> June 2022

3.226. Based on the analysis and supporting evidence, the score for the dimension is A.

### **17.2 Guidance on budget preparation**

3.227. **Performance level and evidence for scoring of the dimension:** The Budget Call Circular for FY 2022/23 was comprehensive and clear. It included an overview of the economic situation and outlook, and provided guidelines for the budget preparation, including the resource envelope and outlay (current expenditure, capital expenditure) for the full fiscal year. The circular also highlight the key priority areas of investment for the budget year in the introductory part. The Budget Call Circular was approved by the Cabinet before being sent to the budgetary bodies. The Budget Call Circular did not reflect ministry ceilings as budget ceilings at the agency level were discontinued in FY 2021/22.

3.228. Based on the analysis and supporting evidence, the score for the dimension is D,

### **17.3 Budget submission to the legislature**

3.229. **Performance level and evidence for scoring of the dimension:** Article 47 of the PFA 2007, as per the Public Finance (Amendment) Act 2012, states that the “The Minister of Finance shall present to the Parliament the Government’s Budget Appropriation Bill no later than five days preceding the budget year”. The budget is expected to be approved by the Parliament before the start of the fiscal year on 1 July. The budget was presented and approved on time for the last three fiscal years, in line with the Public Finance (Amendment) Act 2012 (see below table).

**Table 3.48: Actual dates of budget submission for the last three completed fiscal years**

Fiscal Year	Actual date of submission
2020/21	1 June 2020
2021/22	8 June 2021
2022/23	6 June 2022

3.230. Based on the analysis and supporting evidence, the score for the dimension is D.

3.231. **Performance change since the previous assessment:** The overall score (C) has deteriorated compared to the 2016 PEFA assessment because the Budget Call Circular for FY 2022/23 did not include ministry-level ceilings submitted to the Cabinet, which resulted in a lower score for PI-17.2 (D in 2022 as compared to A in 2016).

### ***PI-18. Legislative scrutiny of budgets***

3.232. This indicator assesses the nature and extent of legislative scrutiny of the annual budget. It considers the extent to which the legislature scrutinizes, debates, and approves the annual budget, including the extent to which the legislature’s procedures for scrutiny are well established and adhered to. The indicator also assesses the existence of rules for in-year amendments to the budget without ex-ante approval by the legislature.

**Table 3.49: Minimum scoring requirements for PI-18**

Score	Minimum requirements for scores
<b>PI-18.1 Scope of budget scrutiny</b>	
A	The legislature’s review covers fiscal policies, medium-term fiscal forecasts, and medium-term priorities as well as details of expenditure and revenue.
B	The legislature’s review covers fiscal policies and aggregates for the coming year as well as details of expenditure and revenue.
C	The legislature’s review covers details of expenditure and revenue.
D	Performance is less than required for a C score.
<b>PI-18.2 Legislative procedures for budget scrutiny</b>	
A	The legislature’s procedures to review budget proposals are approved by the legislature in advance of budget hearings and are adhered to. The procedures include arrangements for public consultation. They also include internal organizational arrangements, such as specialized review committees, technical support, and negotiation procedures.
B	The legislature’s procedures to review budget proposals are approved by the legislature in advance of budget hearings and are adhered to. The procedures include internal organizational arrangements such as specialized review committees, technical support, and negotiation procedures.
C	The legislature’s procedures to review budget proposals are approved by the legislature in advance of budget hearings and are adhered to.
D	Performance is less than required for a C score.
<b>PI-18.3 Timing of budget approval</b>	
A	The legislature has approved the annual budget before the start of the year in each of the last three fiscal years.
B	The legislature has approved the annual budget before the start of the year in two of the last three fiscal years, with a delay of up to one month in the third year.
C	The legislature has approved the annual budget within one month of the start of the year in two or more of the last three fiscal years.
D	Performance is less than required for a C score.
<b>PI-18.4 Rules for budget adjustments by the executive</b>	
A	Clear rules exist for in-year budget adjustments by the executive. The rules set strict limits on the extent and nature of amendments and are adhered to in all instances.
B	Clear rules exist for in-year budget adjustments by the executive, and are adhered to in most instances.
C	Clear rules exist which may be adhered to in some instances or they may allow extensive administrative reallocation as well as expansion of total expenditure.
D	Performance is less than required for a C score.

**Table 3.50: Summary of scores for PI-18 and performance table**

Indicator/Dimension	2016 Score	2022 Score	Brief justification for score
<b>PI-18. Legislative scrutiny of budgets</b>	<b>C+</b>	<b>B+</b>	Scoring method M1
18.1 Scope of budget scrutiny	C	B	The legislative review of the FY 2021/22 budget included fiscal policies and aggregates for the coming years as well as details of expenditure and revenue except for medium-term priorities.

18.2 Legislative procedures for budget scrutiny	C	B	Parliament's procedures for annual budget review established through the Constitution, acts and rules, and are adhered to. The procedures include internal organizational arrangements.
18.3 Timing of budget approval	C	A	Parliament approved the annual budget before the start of the fiscal year for the last three years.
18.4 Rules for budget adjustments by the executive	A	A	The FRR 2016 provides clear and strict rules for in-year budget adjustments by the executive, which are adhered to in all instances.

3.233. Parliament consists of the Druk Gyalpo (His Majesty the King of Bhutan), the National Council, and the National Assembly. Article 14 (8) of the Constitution 2008 states that *“The annual budget, with a report on the budget of the previous fiscal year, shall be presented to the National Assembly by the Finance Minister”*. Also, the PFA 2007, National Assembly Act 2008, and the National Council Act 2008, together with the Rules of Procedures of the National Assembly 2014, provide provisions for passing the Money/Financial Bill.

3.234. The National Assembly's Economic and Finance Committee (EFC) scrutinizes the Annual Budget once tabled by the Finance Minister. It conducts consultations, as necessary, with the MoF and other stakeholders. The EFC has ten working days to scrutinize the budget and, subsequently, presents a report with recommendations to the National Assembly. The National Assembly extensively deliberates on the recommendations submitted by the EFC and passes the Budget Appropriation Bill (and Supplementary Budget Appropriation Bill). The National Council has five days to deliberate on the Annual Budget and the recommendations of the National Assembly. The National Council's submissions are deliberated in the National Assembly, and the Annual Budget must be adopted with or without the recommendations of the National Council. Eventually, the Annual Budget is submitted for Royal Assent within 15 days after adoption by the National Assembly.

### **18.1 Scope of budget scrutiny**

3.235. **Performance level and evidence for scoring of the dimension:** The National Budget Report for FY 2022/23 was presented by the Finance Minister to the National Assembly on 6 June 2022, and the Hon. Speaker referred it to the EFC for scrutiny. During the course of the scrutiny process, the EFC consulted not only with the MoF, but also with other stakeholders (such as GHNC, Department of Information Technology, and Ministry of Information and Communication) to seek clarification. The National Budget Report for FY 2022/23 was aimed at 'accelerating economy recovery through strategic investments in the area of food self-sufficiency, human capital development, sustainable infrastructure development and improved social security' and covered an economic overview, resources, expenditure, debt situation and outlook, including the medium-term financing strategy, and major activities such as the COVID-19 response, flagship programs, road connectivity, skill development plans, trade facilitation, and promotion of green and sustainable transportation.

3.236. The EFC review covered details of revenue and expenditure, and fiscal policies. The EFC, after review and consultation with stakeholders, provided recommendations on Digital Druk Yul projects, the industry and service sector, balance of payments, and granular sub base. The EFC presented its review report on 15 June 2022 to the National Assembly for further deliberation. On 24 June 2022, the National Council submitted recommendations on the Annual Budget, which were re-deliberated in the National Assembly, and the FY 2022/23 budget was thereafter adopted on 27 June 2022.

3.237. Based on the analysis and supporting evidence, the score for the dimension is B.

### **18.2 Legislative procedures for budget scrutiny**

3.238. **Performance level and evidence for scoring of the dimension:** Legislative review of the Annual Budget is established in the Constitution 2008, National Assembly Act 2008, National Council Act 2008, PFA 2007, Rules of Procedures of the National Assembly 2014, EFC's Fiscal and Budget Oversight Guide,<sup>62</sup> and the EFC Terms of Reference. Article 10 (2) of the Constitution 2008 imposes an obligation on Parliament to conduct a "*public review of policies and issues, Bills and other legislations, and scrutiny of State functions.*" Accordingly, the Public Hearing Manual 2016 was developed.

3.239. The 2022/23 budget was thoroughly scrutinized by the EFC. No adjustments and negotiations were made, although recommendations were provided, and the report and the budget was thoroughly discussed in the Legislative Assembly. The resulting resolution was sent to the National Council for review and recommendation. Accordingly, the recommendation provided by the National Council was discussed in the Legislative Assembly. As also mentioned under PI-18.1, the EFC's scrutiny process includes technical discussions with the MoF and other stakeholders (for the 2022/23, for example, the GHNC, Department of Information Technology, and Ministry of Information and Communication).<sup>63</sup>

3.240. The members of the EFC have been provided training on budget scrutiny and analysis to enhance their capacity. Most EFC members are well-experienced as they have been members of the EFC since 2018.

3.241. Based on the analysis and supporting evidence, the score for the dimension is B.

### **18.3 Timing of budget approvals**

3.242. **Performance level and evidence for scoring of the dimension:** The date for Parliament's approval of the Annual Budget as well as the date of the Royal Assent to the Budget Appropriation Bill for FY 2020/21, FY 2021/22 and FY 2022/23 are shown below.

---

<sup>62</sup> According to the Fiscal and Budget Oversight Guide, the EFC is operationally supported by the Parliamentary Budget Office and administrative technical support staff.

<sup>63</sup> <https://www.mof.gov.bt/wp-content/uploads/2021/07/quarter3BPR2706202101.pdf>.



**Table 3.51: Actual dates of budget approval for the last three completed fiscal years**

Fiscal Year	Date of Approval of the Annual Budget by the National Assembly	Date of Royal Assent to the Budget Appropriation Bill
2020/21	16 June 2020	2 July 2020
2021/22	18 June 2021	2 July 2021
2022/23	27 June 2022	2 July 2022

3.243. As the RGoB's fiscal year commences on 1 July, the National Assembly approved the Annual Budget before the start of the fiscal year for all three years.

3.244. Based on the analysis and supporting evidence, the score for the dimension is A.

#### **18.4 Rules for budget adjustments by the executive**

3.245. **Performance level and evidence for scoring of the dimension:** In an effort to facilitate expeditious implementation of policies and programs, powers for issue of financial sanctions are provided for all different levels of authority. To enhance efficiency and expedite decision-making, certain powers may be delegated to subordinate officers through written orders. The MoF may authorize additional budget funds through technical adjustments, as long as total budget resources remain within the approved budget, as per the FRR 2016. However, budget agencies are not allowed to re-appropriate:

- a) From capital to recurrent;
- b) From personal emoluments or provident funds; and,
- c) To new object codes.

3.246. Furthermore, the Head of the Ministry, Chief of Justice, Speaker and Chairperson have full power to re-appropriation from:

- a) One object code to another existing budgeted object code under the same activity;
- b) One activity to another existing activity in the same program/sub-activity;
- c) One sub-program to another existing sub-program in the same program; and,
- d) One program to another existing program;

3.247. However, re-appropriation from one existing program to another existing program by the Head of the Secretariat / Constitutional Bodies / Autonomous Agency up to Nu. 3.000 million as per the 'Revised Delegation of Financial Power' (Appendix 1 in the FAM 2016).

3.248. Accordingly, Section 56 of the Public Finance (Amendment) Act 2012 provides that the Finance Minister may present to Parliament the Supplementary Budget Appropriation Bills, outlining changes in appropriations and resource estimates with justifications for the revisions.

3.249. The executive adheres to all existing rules and regulations for budget amendments. This is reflected in the RAA’s AAR for FY 2021/22, which does not include audit observations in this regard.

3.250. Based on the analysis and supporting evidence, the score for the dimension is A.

3.251. **Performance change since the previous assessment:** The score of PI-18.1 has improved from C in 2016 to B in 2022 as the scope of Parliament’s annual budget scrutiny was broadened. The score of PI-18.2 has improved from C in 2016 to B in 2022 as the procedures for scrutiny of the annual budget now include internal organization arrangements. The score of PI-18.3 has improved from C in 2016 to A in 2022 as Parliament approved the last three annual budgets before the start of the fiscal year in each case.

3.252. **Recent or ongoing reform activities:** The members of the EFC undertook training on legislative scrutiny of the budget in 2021 and, also, a ‘Fiscal and Budget Oversight Guide’ was developed for the EFC in 2021.

## PILLAR V: Predictability and control in budget execution

3.253. Pillar V assesses whether the budget is implemented within a system of effective standards, processes, and internal controls, ensuring that resources are obtained and used as intended.

### PI-19. Revenue administration

3.254. This indicator covers the administration of all types of tax and non-tax revenue for central government. It assesses the procedures used to collect and monitor central government revenues.

Table 3.52: Minimum scoring requirements for PI-19

Score	Minimum requirements for scores
<b>PI-19.1 Rights and obligations for revenue measures</b>	
A	Entities collecting <b>most</b> revenues use multiple channels to provide payers with easy access to comprehensive and up-to-date information on the main revenue obligation areas and on rights including, as a minimum, redress processes and procedures.
B	Entities collecting the <b>majority</b> of revenues provide payers with access to comprehensive and up-to-date information on the main revenue obligation areas and on rights including, as a minimum, redress processes and procedures.
C	Entities collecting the <b>majority</b> of revenues provide payers with access to information on the main revenue obligation areas and on rights including, as a minimum, redress processes and procedures.
D	Performance is less than required for a C score.
<b>PI-19.2 Revenue risk management</b>	
A	Entities collecting <b>most</b> revenues use a comprehensive, structured and systematic approach for assessing and prioritizing compliance risks for <b>all</b> categories of revenue and, as a minimum for their large and medium revenue payers.
B	Entities collecting the <b>majority</b> of revenues use a structured and systematic approach for assessing and prioritizing compliance risks for <b>some</b> categories of revenue and, as a minimum, for their large revenue payers.

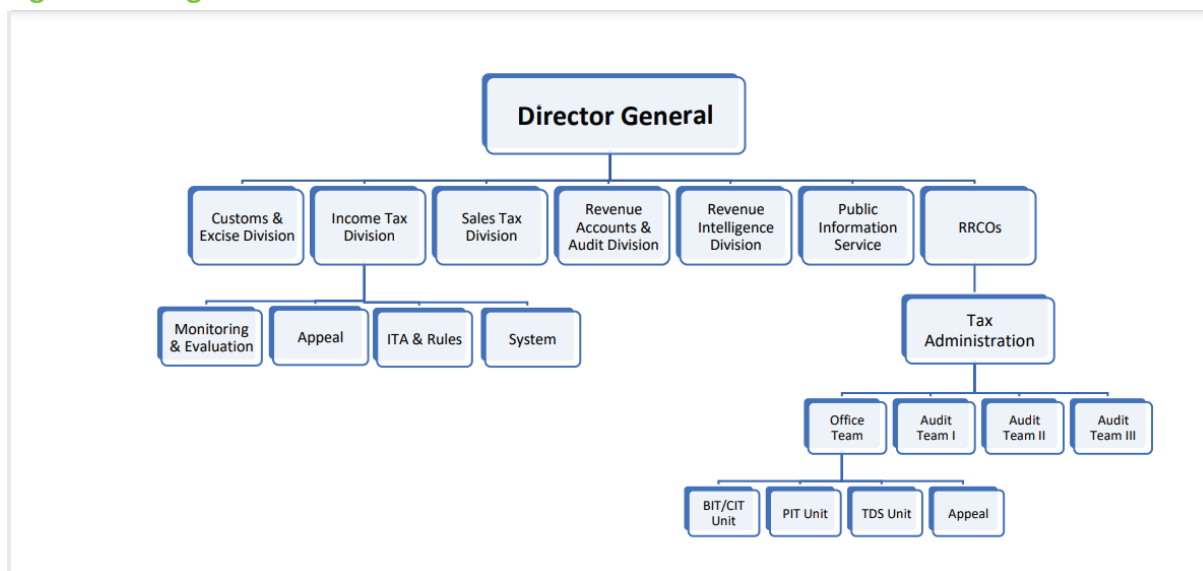
C	Entities collecting the <b>majority</b> of revenues use approaches that are partly structured and systematic for assessing and prioritizing compliance risks for <b>some</b> revenue streams.
D	Performance is less than required for a C score.
<b>PI-19.3 Revenue audit and investigation</b>	
A	Entities collecting <b>most</b> revenue undertake audits and fraud investigations managed and reported on according to a documented compliance improvement plan, and complete <b>all</b> planned audits and investigations.
B	Entities collecting the <b>majority</b> of revenue undertake audits and fraud investigations managed and reported on according to a documented compliance improvement plan, and complete <b>all</b> planned audits and investigations.
C	Entities collecting the <b>majority</b> of government revenue undertake audits and fraud investigations using a compliance improvement plan and complete the <b>majority</b> of planned audits and investigations.
D	Performance is less than required for a C score.
<b>PI-19.4 Revenue arrears monitoring</b>	
A	The stock of revenue arrears at the end of the last completed fiscal year is below 10 percent of the total revenue collection for the year, and the revenue arrears older than 12 months are less than 25 percent of total revenue arrears for the year.
B	The stock of revenue arrears at the end of the last completed fiscal year is below 20 percent of the total revenue collection of the year and the revenue arrears older than 12 months are less than 50 percent of total revenue arrears for the year.
C	The stock of revenue arrears at the end of the last completed fiscal year is below 40 percent of the total revenue collection for the year and the revenue arrears older than 12 months are less than 75 percent of total revenue arrears for the year.
D	Performance is less than required for a C score.

**Table 3.53: Summary of scores for PI-19 and performance table**

Indicator/Dimension	2016 Score	2022 Score	Brief justification for score
<b>PI-19. Revenue administration</b>	<b>B+</b>	<b>B+</b>	Scoring method M2
19.1 Rights and obligations for revenue measures	B	A	The DRC, which collects most of the revenue, provides taxpayers with comprehensive information on the main revenue obligations and on their rights, including rights of redress.
19.2 Revenue risk management	B	B	The DRC uses a structured and systematic approach for assessing and prioritizing compliance risks for some categories of revenue, including for large revenue payers.
19.3 Revenue audit and investigation	A	A	The DRC, which collects the most revenue, undertakes audits and fraud investigations, managed and reported according to a documented compliance improvement plan, and completes all planned audits and investigations.
19.4 Revenue arrears monitoring	A	B	The stock of revenue arrears at end-FY 2021/22 is calculated at 15.2% of total revenue collected for the year. All arrears are less than one year old.

3.255. The DRC is responsible for the collection of all direct and indirect tax revenue and non-tax revenue, except grants. It has its head office in Thimphu with eight Regional Revenue and Customs Offices (RRCOs) across the country, and administers all twenty Dzongkhags and Liaison and Trade Office (LTO) in Kolkata. The DRC’s organizational structure is shown in the figure below.

**Figure 3.2: Organizational structure of the DRC**



3.256. Revenue sources are taxes, other revenue, and capital revenue from government agencies. The core taxes include corporate income tax (CIT), business income tax (BIT) and personal income tax (PIT), sales tax, customs (import) duty and excise duty (indirect taxes). CIT, BIT and PIT are filed on a self-assessment basis. As per the Income Tax Act 2001, all companies, large and medium-sized business units are required to maintain books of accounts, and small or micro business units are required to maintain basic records of business transactions. Taxes on businesses that do not maintain books of accounts are collected on estimated methods.

### **19.1 Rights and obligations for revenue measures**

3.257. **Performance level and evidence for scoring of the dimension:** Information on taxpayers’ duties and rights as well as administrative procedures and processes are publicly available. All tax legislation – Income Tax Act 2001 and the Rules; Sales Tax, Customs and Excise Act 2000 and Rules and any amendment to the Act and rules thereof – are available on the MoF’s website, and copies of acts and rules can be purchased. The DRC issues notifications in the media on changes in the legislation and procedures and from time to time notifies taxpayers on tax filing due dates. Tax filing dates for CIT, BIT and PIT differ.<sup>64</sup>Information on non-tax revenue is available in the laws of the respective agencies and on their websites, and changes are notified in the media from time to time. For example, royalty on mines and minerals is covered in the Mines and Minerals Management Act, while information on royalty on forestry products is available with the Ministry of Agriculture and Forests (MoAF). While

<sup>64</sup> For example, for PIT the filing period is from 1 January to 28/29 February following the income year, while for BIT and CIT it is from 1 January to 31 March following the income year.

different entities may prescribe non-tax user charges or royalty, their collection is the responsibility of the DRC. Comprehensive legislation and regulations on liabilities, duties and rights are available to the public. The concerned agencies are responsible for disseminating information through the media where necessary.

3.258. Taxpayers are separately notified on their obligations and informed through official websites, social media pages, and the national television. To make it convenient for taxpayers to avail online services, there are video tutorials, guidelines and other related information available online. The DRC also has a 'Public Information Services' unit that disseminates information on direct and indirect taxes, rules and regulations, and other relevant matters. There is also a call-in toll-free number for the DRC. Service standards have been set for engagement between government and taxpayers, which include targets such as waiting times and hours of operation. Service beneficiaries are entitled to know what level of service they should expect from the DRC, how services will be delivered, and the associated cost. Taxpayers can refer to Customer Service Delivery Standard Guidelines, which is uploaded on the DRC's website.

3.259. Taxpayers can appeal tax demand as well as fines and penalties. Within the DRC there are three tiers of appeal where a taxpayer can lodge an appeal before going to the court. The first tier is the Regional Tax Appeal Committee (RTAC) at the RRCO-level, followed by the DRC Appeal Committee at the head office-level, and then the MoF Appeal Board at the ministry-level (with members from outside the MoF). The taxpayer must, if disagreeing with the findings of a tax assessment, appeal to a RRCP within 30 working days from the date of issue of a tax demand notice. The appeal will be heard by the RTAC and a decision conveyed within 30 days from the receipt of the appeal. If the taxpayer does not receive a response from the RRCO on their first appeal (within 30 days from the date of appeal), or if they are not satisfied with the decision passed by RTAC, an appeal can be made to the DRC Tax Appeal Committee for further review. The Appeal Committee will convey a decision within 60 working days from the date of receipt of the appeal. The third level of appeal is the MoF Appeal Board. If the taxpayer still disagrees or is not satisfied with the decision of the Appeal Board, the taxpayer can appeal to a court of law.

3.260. Appeals data from the RRCOs and the DRC are shown below.

**Table 3.54: Tax appeals for income year 2021**

RRCO-level	Corporate Income Tax (CIT)	Business Income Tax (BIT)	Personal Income Tax (PIT)	Total
No. of appeals received	12	306	23	<b>341</b>
DRC-level	Corporate Income Tax (CIT)	Business Income Tax (BIT)	Personal Income Tax (PIT)	Total
No. of appeals received	8	16	13	<b>37</b>
Rejected	1	3	0	<b>4</b>

Source: DRC.

3.261. Based on the analysis and supporting evidence, the score for the dimension is A.

## 19.2 Revenue risk management

3.262. **Performance level and evidence for scoring of the dimension:** Compliance Improvement Plans are not systematic and do not cover all taxes. A comprehensive plan exists for sales tax covering registration, filing of declarations, payment of liabilities, and reporting of information in declaration and across economic sectors. Interventions covering other taxes are ad hoc in nature.

3.263. The DRC monitors collection of all domestic revenue, both tax and non-tax revenue. Taxpayers file declarations and make payment of taxes at the RRCOs. Income tax assessments and audits are carried out based on risk indicators like the nature and size of the business, compliance record, last tax assessment conducted, units declaring losses, units claiming substantial tax refund, and tax potential. For indirect taxes indicators include Regional Intelligence Liaison Office alert (World Customs Organization (WCO)), based on tax rates declared on invoices and declaration forms to avoid deflection and evasion, country of origin, etc. Risk management methods are also used at the time of taxpayer registration since the source of Taxpayer Number (TPN) is the DRC's Income Tax Division. The DRC has an electronic database registration system and a TPN is assigned to each taxpayer and used for correspondence with taxpayers. Measures are taken to ensure that no TPN duplicates are created in the system. Similarly, risk management methods are also used in payments and refunds of taxes. In order to mitigate the risk of losing revenue, all taxpayers who submit tax returns based on self-assessments are either desk-assessed or field-assessed. Based on the merit of each case, tax investigations are also conducted to mitigate risk and reduce the risk of fraudulent practices. Furthermore, every revenue collecting agency has a unique agency code and is registered in the Revenue Administration Management Information System (RAMIS). There is general understanding of risk management across all types of taxes, and tax audits are carried out for all units with high revenue potential and high risk of revenue leakage. However, the DRC is yet to prepare a multi-year strategic plan, although compliance risks inform the annual audit plans. Moreover, assessments and audits are done based on specific risk indicators to ensure effective and efficient use of limited resources for mobilization of domestic revenue. Specific risk indicators are used especially for income tax, but for indirect taxes risk management is not comprehensive.

3.264. The DRC's **Revenue Intelligence Division (RID)** aims to safeguard the revenue administration through detection and investigation of tax and customs frauds. The RID shares information about illegal tax and customs operations which may have an immediate or potential influence on decision-making in revenue administration. It assists the administration in combating tax evasion, customs fraud and other economic crimes.

3.265. The DRC's **Risk Management and Compliance Unit (RMCU)** evaluates referrals from the Data Analysis Unit and recommends investigation of cases where there is a strong likelihood that evidence required for prosecution can be gathered via investigative means.

3.266. Based on the analysis and supporting evidence, the score for the dimension is B.

### 19.3 Revenue audit and investigation

3.267. **Performance level and evidence for scoring of the dimension:** The DRC is guided by the Income Tax Act 2001; Sales Tax, Customs and Excise Act 2000; Revenue Accounting Manual 2019; Income Tax Manual 2018; Indirect Tax Manual (Sales Tax and Customs) 2006; and, subsidiary rules and regulations.

3.268. A comprehensive Compliance Improvement Plan for Sales Tax, which also includes audit, has been implemented, but similar plans are not in place for other taxes. The plans that do exist address a limited range of risks and do not cover all core taxes, taxpayer segments or taxpayer obligations or inform an annual work plan. Monitoring of the Compliance Improvement Plan is ad hoc.

3.269. Other compliance work addresses under-declaration of rental income for corporate income tax purposes. The Compliance Improvement Plan for sales tax addresses risks in taxpayer compliance obligations and by economic sector. Desk assessment comprising arithmetical and completeness checks and a check of the reasonableness of the declared amounts is carried out on all tax returns (not necessarily only on large taxpayers or specific sectors) to determine whether further assessment is required and risk analysis to determine if the taxpayer needs to be identified for field assessment. Field audits are wider in scope and cases are selected based on elements of risk covering Sales Tax, PIT, CIT and BIT. In addition, all returns must undergo an audit at least once every two years regardless of risk. As per the Income Tax Act 2001, a desk assessment must be completed within 90 days and field assessment within two years from the due date of filing. The Income Tax Manual provides comprehensive guidance on field and desk assessment procedures, but this cannot be said of the Indirect Tax Manual (Sales tax and Customs) 2006.

3.270. Detailed audit planning and execution are reported in a performance indicator report of each division (for income tax, customs and sales tax). Monthly reports to senior management of audit outcomes include summaries of activity by tax, and additional tax assessed and paid. Detailed assessment reports and data on decisions on penalties are maintained by each division. Final decisions are conveyed to the taxpayers and penalties are realized. Summary statistics are also reported in the annual National Revenue Report.

3.271. The DRC's head office conducts audits of the RRCOs, and the RRCOs conduct audits of the collecting agencies under their jurisdiction to strengthen the internal control systems. The RAA conducts external audits of all government agencies, including the DRC and RRCOs.

**Table 3.55: Tax audits planned and executed**

	Direct Tax		Indirect Tax		Overall		Executed / Planned
	Audits Planned	Audits Executed	Audits Planned	Audits Executed	Audits Planned	Audits Executed	
2021/22	71,627	70,792	104	102	71,731	70,894	98%

Source: DRC.

3.272. For sales tax collection, post clearance audits (PCAs) are conducted for the units that have availed exemption as per the Fiscal Incentives Act 2017. PCAs are carried out based on



risk analysis to ensure that exemptions have not been misused. Against the manufacturing units that avail exemption on raw materials annually, PCAs are conducted on an annual basis to confirm that materials imported qualified for exemption, that the quantity imported has been within the limit approved and to check if exemption has been sought in case of additional requirement and imports. PCAs were in 2021 conducted on a total of 29 units by the RRCOs, which resulted in Nu. 2.73 million of sales tax and Nu. 1.36 million of fines.

3.273. Under the Customs Section of the RRCOs, the focus is on curbing illegitimate trade (illicit import and export). While routine investigations are conducted at a regional level, the DRC's Revenue Intelligence Division (RID) handles the more complex cases.

3.274. Based on the analysis and supporting evidence, the score for the dimension is A.

#### **19.4 Revenue arrears monitoring**

3.275. **Performance level and evidence for scoring of the dimension:** In the DRC, 'revenue arrears' refer to the difference between collections and deposits, i.e. revenue in the pipeline. These are reported in the RGoB's AFS. Revenue arrears pertain to non-deposit of government revenues within the stipulated fiscal year. In addition, there are arrears due to assessments not being collected when they are due. Normally, arrears are detected during compilation and reconciliation of the national revenue, while some cases are detected through audits. The DRC is responsible for follow-up and recovery of revenue arrears. A penal interest of 24% is levied for late deposits of revenue. Where cases are not resolved and there is disagreement, the cases are forwarded to a court of law.

3.276. The DRC maintains arrears data for direct taxes, other taxes, and non-tax revenues, but does not maintain related information for indirect taxes such as sales tax or for tax deducted at source. The collection of sales tax and tax deducted at source from FY 2021/22 amounted to Nu. 5,608.668 million, as compared to total domestic revenue collection of Nu. 39,043.073 million. This means that the DRC for FY 2021/22 maintained data on tax arrears covering 85.6% of total revenue.

**Table 3.56: Revenue arrears as of 30 June 2022**

	Stock of arrears (Nu. Millions)	Total collection (Nu. Millions)	Arrears / Collection (%)
Direct taxes	337.812	13,470.385	0.87%
Indirect taxes – Sales tax	<i>Not available</i>	5,608.668	-
Indirect taxes – Others	0	2,353.312	-
Other taxes	0	4,410.687	0
Non-tax revenues	0.104	13,200.021	0.0%
<b>Total</b>	<b>337.916</b>	<b>39,043.073</b>	<b>0.87%</b>

Note: The arrears follow the PEFA definition and include overdues, tax due to assessment and penalty and interest.  
Source: DRC.

3.277. The stock of arrears as of 30 June 2022 amounted to Nu. 337.916 million. All arrears are less than one year old. PI-19.4 has been scored based on the available arrears data (Nu.

337.916 million) and assuming that sales tax arrears were Nu. 5,608.668 million – to make it possible to score PI-19.4 (and the entire PI-19) rather than apply a ‘Not Used (NU)’ rating.<sup>65</sup>

3.278. Based on the analysis and supporting evidence, the score for the dimension is B.

3.279. **Performance change since the previous assessment:** The score of PI-19.1 has changed from B in 2016 to A in 2022 as the DRC now collects most of the revenues. The score of PI-19.4 changed from A in 2016 to B in 2022 as no data on the stock of sales tax arrears is available. The overall score for PI-19 has remained unchanged at B+.

3.280. **Recent or ongoing reform activities:** The DRC in February 2021 launched the BIT Estimated Tax App (BETA), which is meant for small and micro businesses where the assessment is done based on the Estimated Income Method. Using the app, taxpayers can file tax returns, while officials can assess the tax data (both forgone and collection) and update the same in the RAMIS so as to promote non-contact BIT administration.

3.281. The DRC has also started information sharing to improve compliance and tax assessments. For instance, import data is being shared by the Customs Division with RRCOs (for example rental information) for the purpose of tax assessment. Post-clearance customs audit is to be conducted on units availing tax exemptions.

3.282. The DRC plans to develop new systems such as the electronic Customs Management System (eCMS), Bhutan Integrated Revenue Management System (BIRMS), Bhutan Integrated Taxation System (BITS), and a property tax system in order to modernize the IT infrastructure and facilitate online collection of taxes and non-tax revenues.

### **PI-20. Accounting for revenue**

3.283. This indicator assesses procedures for recording and reporting revenue collections, consolidating revenues collected, and reconciling tax revenue accounts. It covers both tax and nontax revenues collected by the central government.

**Table 3.57: Minimum scoring requirements for PI-20**

Score	Minimum requirements for scores
<b>PI-20.1 Information on revenue collections</b>	
A	A central agency obtains revenue data at least monthly from entities collecting <b>all</b> central government revenue. This information is broken down by revenue type and is consolidated into a report.
B	A central agency obtains revenue data at least monthly from entities collecting <b>most</b> central government revenue. This information is broken down by revenue type and is consolidated into a report.
C	A central agency obtains revenue data at least monthly from entities collecting the <b>majority</b> of central government revenue and consolidates the data.
D	Performance is less than required for a C score.

<sup>65</sup> This means that total arrears have been calculated as Nu. 337.916 million + Nu. 5,608.668 million = Nu. 5,946.58 million / Nu. 39,043.07 million = 15.2%.

PI-20.2 Transfer of revenue collections	
A	Entities collecting <b>most</b> central government revenue transfer the collections directly into accounts controlled by the Treasury, or transfer the collections daily to the Treasury and other designated agencies.
B	Entities collecting <b>most</b> central government revenue transfer the collections to the Treasury and other designated agencies at least weekly.
C	Entities collecting <b>most</b> central government revenue transfer the collections to the Treasury and other designated agencies at least every two weeks.
D	Performance is less than required for a C score.
PI-20.3 Revenue accounts reconciliation	
A	Entities collecting <b>most</b> central government revenue undertake complete reconciliation of assessments, collections, arrears, and transfers to Treasury and other designated agencies at least quarterly within four weeks of the end of quarter.
B	Entities collecting <b>most</b> central government revenue undertake complete reconciliation of assessments, collections, arrears, and transfers to Treasury and other designated agencies at least half-yearly within eight weeks of the end of the half-year.
C	Entities collecting <b>most</b> central government revenue undertake complete reconciliation of collections and transfers to Treasury and other designated agencies at least annually within 2 months of the end of the year.
D	Performance is less than required for a C score.

**Table 3.58: Summary of scores for PI-20 and performance table**

Indicator/Dimension	2016 Score	2022 Score	Brief justification for score
<b>PI-20 Accounting for revenue</b>	<b>B+</b>	<b>A</b>	Scoring method M1
20.1 Information on revenue collections	A	A	Information on revenue collection is reported monthly to the MoF and is consolidated into a report.
20.2 Transfer of revenue collections	A	A	Transfers to the Treasury are made daily.
20.3 Revenue accounts reconciliation	B	A	Complete reconciliation of assessments, collections, arrears, and transfers to the Treasury is made daily, monthly and quarterly within a week of end of period.

3.284. The DRC is responsible for the collection and deposit of all domestic revenues both tax and non-tax revenue. Besides administering the main taxes – CIT, BIT and PIT as well as excise duty, sales tax, and transfer tax on property and land – the DRC is responsible for assessment, collection and deposit of national revenue and processing refunds, if any.

### **20.1. Information on revenue collections**

3.285. **Performance level and evidence for scoring of the dimension:** The DRC maintains a central account to collect all tax and non-tax revenue and reports collection to the MoF on a regular basis. In addition to end of day reports, the monthly collection data is shared with the TMD of the MoF's DTA. The DRC also submits a revenue collection report to the DMDF on a monthly and quarterly basis (i.e., in October, January, April and June), and on a half-yearly

basis. The reports, including the monthly report, consolidate the revenue collection data broken down by revenue type. Additionally, collection reports are shared (on an ad hoc basis) with the MoF. The DRC publishes an annual National Revenue Report,<sup>66</sup> which is shared with all ministries and agencies.

**Table 3.59: Information on revenue collection FY 2021/22**

Collecting entity	Category of revenue	Total amount collected*	Frequency of data transfer to the central agency	Transferred data characteristics (Y/N):		
				Broken down by revenue type	Consolidated into a report	Consolidated
DRC	Tax and non tax revenue	Nu.39,043.073 million	Daily	Yes	Yes	Yes

\* As described under PI-19 to determine the materiality.

3.286. Based on the analysis and supporting evidence, the score for the dimension is A.

## 20.2. Transfer of revenue collections

3.287. **Performance level and evidence for scoring of the dimension:** The functions and services of the DRC are automated or computerized using the Bhutan Automated Customs System (BACS) and the Revenue Management System (RMS). BACS is used mainly for indirect taxes such as customs and sales tax at the point of entry of goods, while RMS consist of the Tax Management System (TMS) for direct taxes and the Revenue Accounting System (RAS). All taxes and duties are paid directly to the RRCOs, and non-tax revenues are paid directly to the respective revenue collecting agencies of different ministries (e.g., health and education). All taxes, duties and other revenues are deposited directly in the RGoB's revenue account maintained with the Bank of Bhutan Limited (BoBL) and, on a daily basis, revenue is transferred to the Government Consolidated Account (GCA), i.e. the Treasury. The procedure is very effective, and there are no delays in the transfers to the Treasury.

**Table 3.60: Transfer of revenue collection**

Collecting entity	Category of revenue	Frequency of revenue collections transfer to the Treasury
DRC	Tax and non tax revenue	Real-time

3.288. Based on the analysis and supporting evidence, the score for the dimension is A.

## 20.3. Revenue accounts reconciliation

3.289. **Performance level and evidence for scoring of the dimension:** Daily collection reports with one day lag are shared with the DTA, RMA, and the DPBP. Monthly and quarterly reconciled figures are also shared with the TMD, DTA, within the first week of the end of the month and quarter. The reconciliation of revenue collection and deposit is done every day by the DRC in the web-based integrated RAMIS, which is used for both direct and indirect taxes, and facilitates daily reconciliation. Through the process of reconciliation, a picture of monthly

<sup>66</sup> <http://portal.drc.gov.bt/drc/node/1811>.

and quarterly tax arrears becomes available to the MoF through the DTA. In addition, a statement reflecting revenue arrears is shared with the DTA on an annual basis to be incorporated in the RGoB's AFS. The PFA 2007 mandates that a summary of revenue statements and arrears be submitted at the end of the fiscal year to the DTA. As the AFS is published annually, therefore it contains revenue information for the fiscal year.

**Table 3.61: Revenue accounts reconciliation**

Collecting entity	Category of revenue	Frequency	Timeline	Type of reconciled data (Y/N):			
				Assess-ments	Collections	Arrears	Transfers to Treasury
DRC	Tax and non-tax	Daily	Daily	Yes	Yes	Yes	Yes

3.290. Based on the analysis and supporting evidence, the score for the dimension is A.

3.291. **Performance change since the previous assessment:** PI-20.3 has improved from a B in 2016 to an A in 2022, which is because revenue account reconciliation is now done on a daily and quarterly basis within a week of the end of the quarter.

**PI-21. Predictability of in-year resource allocation**

3.292. This indicator assesses the extent to which the central MoF is able to forecast cash commitments and requirements and to provide reliable information on the availability of funds to budgetary bodies for service delivery.

**Table 3.62: Minimum scoring requirements for PI-21**

Score	Minimum requirements for scores
<b>PI-21.1 Consolidation of cash balances</b>	
A	<b>All</b> bank and cash balances are consolidated on a daily basis.
B	<b>All</b> bank and cash balances are consolidated on a weekly basis.
C	<b>Most</b> cash balances are consolidated on a monthly basis.
D	Performance is less than required for a C score.
<b>PI-21.2 Cash forecasting and monitoring</b>	
A	A cash flow forecast is prepared for the fiscal year and is updated monthly on the basis of actual cash inflows and outflows.
B	A cash flow forecast is prepared for the fiscal year and is updated at least quarterly on the basis of actual cash inflows and outflows.
C	A cash flow forecast is prepared for the fiscal year.
D	Performance is less than required for a C score.
<b>PI-21.3 Information on commitment ceilings</b>	
A	Budgetary units are able to plan and commit expenditure for at least six months in advance in accordance with the budgeted appropriations and cash/commitment releases.
B	Budgetary units are provided reliable information on commitment ceilings at least quarterly in advance.
C	Budgetary units are provided reliable information on commitment ceilings at least one month in advance.

D	Performance is less than required for a C score.
<b>PI-21.4 Significance of in-year budget adjustments</b>	
A	Significant in-year adjustments to budget allocations take place no more than twice in a year and are done in a transparent and predictable way.
B	Significant in-year adjustments to budget allocations take place no more than twice in a year and are done in a fairly transparent way.
C	Significant in-year budget adjustments to budget allocations are frequent, and are partially transparent.
D	Performance is less than required for a C score.

**Table 3.63 Summary of scores for PI-21 and performance table**

Indicator/Dimension	2016 Score	2022 Score	Brief justification for score
<b>PI-21 Predictability of in-year resource allocation</b>	<b>B+</b>	<b>B</b>	Scoring method M2
21.1 Consolidation of cash balances	B	D	The balances in the Treasury Single Account (TSA) are consolidated daily. There are balances outside the TSA that are not consolidated.
21.2 Cash forecasting and monitoring	B	C	A cash flow forecast is prepared for the fiscal year and updated monthly, but not based on actual cash inflows and outflows.
21.3 Information on commitment ceilings	A	A	The budgetary bodies are able to plan and commit expenditure for at least six months in advance in accordance with the budgeted appropriations and cash/commitment releases.
21.4 Significance of in-year budget adjustments	A	A	In-year adjustments to budget allocations are not significant (i.e., less than 5% of original budget), take place only once a year above the level of the budgetary bodies and are done in a transparent and predictable way.

### **21.1. Consolidation of cash balances**

3.293. **Performance level and evidence for scoring of the dimension:** As per Article 14 (2) of the Constitution 2008, all public monies not allocated for specific purposes by law shall be deposited into a Consolidated Fund. In line with the Constitution as well as Sections 107-108 of the Public Finance (Amendment) Act 2012, the Consolidated Fund Account (CFA) is maintained with the RMA as the TSA. There are three subsidiary bank accounts maintained with the BoBL, an agent bank, to facilitate receipt and management of Government Funds and linked to the CFA (Section 109 of the PFA 2007):

- Royal Government Revenue (RGR) account,
- Government Budget Fund Account (GBFA), and
- Government Non-revenue Receipts and Deposits Account (GNRDA).

3.294. Withdrawals of funds by the budgetary bodies for implementation of budget activities are authorized through a Letter of Credit (LC) or Project Letter of Credit (PLC) accounts, which are maintained with the BoBL.

3.295. The RGR account is used to deposit all monies that are revenue in nature and any refunds relating to taxes and levies made from this account. The GBFA is used to receive grants, borrowings, and loan principal recoveries, and unutilized grants are refunded to respective donors from this account. The GNRDA is used to receive interagency fund transfers as an advance or reimbursement. The net balances from these three subsidiary accounts are transferred to the CFA for consolidation and the LC/PLC withdrawals are charged to the CFA to arrive at the Government Consolidated Account (GCA) position.

3.296. Additionally, there are Current Deposit (CD) accounts authorized to facilitate the operation and management of activities outside budgetary activities. These are operated outside Treasury oversight. Other accounts operated outside Treasury oversight include Refundable Deposits Accounts, Trust and Endowment Funds, National Monument Funds, Escrow accounts, Audit Recoveries Account, accounts operated by the universities and institutes, and other CD accounts maintained by the budgetary bodies for specific purposes.

3.297. All balances of the three subsidiary accounts are consolidated daily. The balances of the CD accounts are known daily and are reported in the RGoB's AFS on a yearly basis. However, these are not consolidated with the RGR account. The balances of the accounts managed by the Treasury and budgetary bodies are shown below.

**Table 3.64: Government Bank Accounts of the RGoB**

Accounts managed by the Treasury and Budgetary Bodies	Balance as at 30 June 2022 (Nu. Million)	No. of Accounts
Government Consolidated Account (total A)	1,518.98	1
<b>Bank Accounts outside the Treasury</b>		
National Monuments	102.64	8
Revolving and Refundable Deposits	19.78	8
Universities and Institutes	447.61	25
Audit Recovery and Escrow	47.56	7
Designated Project Accounts	322.12	29
Other CD Accounts	310.83	87
<i>Total for Bank Accounts outside treasury (total B)</i>	<i>1,250.54</i>	
<b>Grand Total (C = A + B)</b>	<b>2,769.52</b>	
% of bank balances consolidated daily (A / C)	54.85%	

Sources: AFS 2021/22.

3.298. Based on the analysis and supporting evidence, the score for the dimension is D.



## 21.2. Cash forecasting and monitoring

3.299. **Performance level and evidence for scoring of the dimension:** The cash forecasting is done by the DTA. The overall cash flow forecast for the fiscal year is prepared electronically using spreadsheets based on the domestic revenue forecast, expected inflow of grants and the outflows based on estimated expenditure for the year, and it is updated monthly.

3.300. The cash inflows of the month include projected domestic revenue, projected grants, and loan receivables, and the principal loan recoverable. The projected domestic revenue and loans receivables as well as recoverable are provided by the DRC and the DMDF, while the grants receivables are provided by the GNHC.

3.301. The cash outflows include Budgetary Release Forecast (BRF) and expected refunds to the donors. The budgetary bodies are required to submit an expenditure forecast (BRF) for succeeding months by the 25<sup>th</sup> to ensure timely release of funds in the following month to their respective LC/PLC accounts. To ensure realistic forecasting, the BRF amounts are adjusted based on recent trend analysis. Refunds to donors are made only after receiving the unspent amount in the GBFA.

3.302. The cash forecasting is updated monthly but not updated based actual cash inflows and outflows. The Treasury Bills are issued to meet the projected deficit cash inflows. The volume of Treasury Bills to be issued is recommended by the Cash Coordinating Committee (CCC) after considering the cash flows, the GCA position and the outstanding Treasury Bills due for redemption in subsequent month. The CCC comprises of members from the DMDF, DPBP, DRC, GNHC, RMA and DTA. Based on the recommendation, the Head of the DTA approves and authorizes the RMA to issuance T-Bills on behalf of the Government.

3.303. Based on the analysis and supporting evidence, the score for the dimension is C.

## 21.3. Information on commitment ceilings

3.304. **Performance level and evidence for scoring of the dimension:**

**a) RGoB financing:** Once the expenditure projections are endorsed by the MFCC, the allocations to finance programs from RGoB financing are determined. Parliament approves the allocations through the (original) budget passed by Parliament ahead of the start of the fiscal year which covers the whole fiscal year. The Budget Notification highlighting the guidelines for implementation is being issued and accordingly the budgetary bodies have the authority to commit and spend the budget upon completing necessary formalities within the approved limits. For instance, the budget appropriation for FY 2021/22 was communicated on 6 July 2021, and that for FY 2022/23 on 4 July 2022. The respective budgetary bodies prepare their work plans using the BMT, which is used as one of the bases to determine the monthly release forecast for disbursement based on physical and financial progress (this mechanism was introduced in FY 2020/21). The releases are based on the monthly BRF and routed through e-PEMS.

**b) External financing:** The budget for programs financed by development partners is based on the commitments and agreements signed with the RGoB. However, at times the implementation gets delayed due to late disbursement by the development partners resulting in huge variance between the budget and actual expenditures. To correct this uncertainty and increase reliability of funds availability, the budget now includes provisions only for those projects for which fund disbursements are confirmed or the alternative of pre-financing from the RGoB is arranged, including projects under implementation. As and when the external grants are available, the funds are recouped and deposited into the CFA to the extent of pre-financing facilitated. Section 60 of the Public Finance (Amendment) Act 2012 allows the Finance Minister to authorize supplementary appropriation without recourse to Parliament for expenditures financed by development partners or co-financed jointly with the RGoB provided all approvals are available. These appropriations are included in the annual Supplementary Appropriation Bill that is presented in Parliament.

3.305. Funds are released to the budgetary bodies through LC/PLC authorizations to the respective LC/PLC accounts and payments are made individually by the budgetary bodies within their approved budgets. Fund releases for the RGoB-financed activities are based on the BRF, which are prepared and submitted by the budgetary bodies for all the approved activities based on the work plan. For externally financed activities, the fund releases are based on fund balances available with the GCA besides the work plan in the BMT. The budgetary bodies complete monthly accounts in e-PEMS for obtaining subsequent fund releases.

3.306. Ministries/agencies are able to plan and commit expenditure for at least six months in advance in accordance with the budgeted appropriations and cash/commitment releases.

3.307. Based on the analysis and supporting evidence, the score for the dimension is A.

#### **21.4. Significance of in-year budget adjustments**

3.308. **Performance level and evidence for scoring of the dimension:** Detailed guidelines for supplementary budgets are provided in the MoF's Budget Manual 2016 according to which there are three types of supplementary budgets:

- **New** – Supplementary budget for totally new activity which doesn't form part of the approved budget.
- **Additional** – Supplementary budget for activity outside the scope of the approved activity.
- **Complementary** – Supplementary budget for which within the scope of the approved activities has the variance because of the underestimation of the item rates and the cost inflation.

3.309. Adjustments to budget allocations are carried out after the budget is passed by Parliament, through Supplementary Appropriations which is admissible as per the Sections 55 to 65 of the PFA 2007, subject to the following:

- Any Supplementary Budget beyond the total approved amount can only be approved by Parliament in accordance with the PFA 2007.

- Budgetary bodies seek supplementary appropriations only when circumstances significantly change, and the Lhengye Zhungtshog (Cabinet) has endorsed the change.
- Budgetary bodies are not allowed to make commitments or incur expenditure against anticipated supplementary budget proposals, but only after the Budget Appropriations Bill has been passed by Parliament.

3.310. Additionally, expenditure beyond that appropriated or for which there is no appropriation can be authorized by the Finance Minister without recourse to Parliament under the following two circumstances (these are included in the supplementary bill for ex-post approval).

- Expenditures that are financed by development partners or are co-financed jointly with the RGoB for a development project that has all the required RGoB approvals, and such finance is based on agreement between the development partners and the RGoB.
- Expenditure to be defrayed in case of an emergency or disaster and which cannot be postponed without detriment to the public interest.

3.311. Requests for supplementary budgets are made from the MoF through a standard template included in the Budget Manual. The Finance Minister presents to Parliament the Supplementary Budget Appropriation Bills, outlining changes in appropriations and resource estimates with full justification for the revisions. Only one such Bill is submitted to Parliament, in the summer session of Parliament, along with the budget for the next year and follows the same procedure as the main budget. The Supplementary Bill also includes rationalization and technical adjustments for ex-post endorsement.

**Table 3.65: Supplementary Budgets of the RGoB (Nu. Million)**

Fiscal Year	Original Budget approved by Parliament	Supplementary	Revised Budget	% of Supplementary to Original Budget
2020/21	73,989.881	2,783.703	76,773.584	3.8%
2021/22	80,483.150	3,866.933	84,350.083	4.8%

Source: Supplementary Budget Appropriation Bill.

3.312. In-year adjustments to budget allocations are not significant (i.e., less than 5% of the original budget) and take place but only once a year above the level of the ministries/agencies and are done in a transparent and predictable way. The DPBP continuously reminds the budgetary bodies through budget call circulars and other notifications to realistically capture the budget estimates. Furthermore, the MoF conducts a mid-year budget review wherein the adjustments in the budget within the agencies are facilitated. In addition, the budget underutilization is also being considered during the annual performance evaluation and accordingly fixed accountability to the agencies. Such initiatives are expected to minimize the incorporation and rationalization during the in-year budget adjustments.

3.313. Based on the analysis and supporting evidence, the score for the dimension is A.

3.314. **Performance change since the previous assessment:** The score for PI-21.1 has changed from B in 2016 to D in 2022 due to more objective assessment based on the PEFA Secretariat’s Fieldguide (2018) that was not available at the time of the 2016 assessment. The score for PI-21.2 has changed from B in 2016 to C in 2022 as the cash forecast is currently not updated based on actual inflows and outflows.

3.315. **Recent or ongoing reform activities:** To ensure improved consolidation of the cash balances of the RGoB, the MoF is reviewing and streamlining the operation and management of CD accounts by the budgetary bodies. Most CD accounts operated by the Central and Autonomous schools, Bhutan Agriculture and Food Regulatory Authority, and the Judiciary have been closed with effect from May 2021. This enables the MoF for successful implementation of a comprehensive TSA. The BMT, which was officially rolled out in FY 2021/22, is also expected to enhance budget utilization as it will enable monitoring the implementation of activities on a real-time basis.

### PI-22. Expenditure arrears

3.316. This indicator measures the extent to which there is a stock of arrears, and the extent to which a systemic problem in this regard is being addressed and brought under control.

**Table 3.66: Minimum scoring requirements for PI-22**

Score	Minimum requirements for scores
<b>PI-22.1 Stock of expenditure arrears</b>	
A	The stock of expenditure arrears is no more than 2% of total expenditure in at least two of the last three completed fiscal years.
B	The stock of expenditure arrears is no more than 6% of total expenditure in at least two of the last three completed fiscal years.
C	The stock of expenditure arrears is no more than 10% of total expenditure in at least two of the last three completed fiscal years.
D	Performance is less than required for a C score.
<b>PI-22.2 Expenditure arrears monitoring</b>	
A	Data on the stock, age, and composition of expenditure arrears is generated quarterly within four weeks of the end of each quarter.
B	Data on the stock and composition of expenditure arrears is generated quarterly within eight weeks of the end of each quarter.
C	Data on the stock and composition of expenditure arrears is generated annually at the end of each fiscal year.
D	Performance is less than required for a C score.

**Table 3.67: Summary of scores for PI-22 and performance table**

Indicator/Dimension	2016 Score	2022 Score	Brief justification for score
<b>PI-22 Expenditure arrears</b>	<b>D</b>	<b>D</b>	Scoring method M1
22.1 Stock of expenditure arrears	D*	D*	There have not been any arrears on debt servicing and salaries. In respect of works, goods and services, there is no central system of reporting of stock of arrears and hence status is not known by the MoF.

22.2 Expenditure arrears monitoring	D	D	Debt is monitored centrally while salary is monitored through the Government Payroll System (GPS). A system has been prescribed for recording arrears in respect of works, goods and services at an individual unit level. However, there is no system for collation, consolidation and reporting of stock, composition or age of expenditure arrears, if any.
-------------------------------------	---	---	--

### 22.1 Stock of expenditure arrears

3.317. **Performance level and evidence for scoring of the dimension:** The FAM of the FRR 2016, Clause 5.6 (1, 2 and 3), on General Procedure for Processing of Claims, requires a Head of Office or an officer authorized by him/her with powers to draw and disburse government money, to maintain a Bills Inward Register in prescribed format. All claims received or prepared in an office should be registered in the Bills Inward Register which should be reviewed once a month by the Head of Office, and the result of the review recorded in the register. Both the FAM (clause 5.6.3) and the PRR 2019 (clause 6.3.1.7) require all budgetary bodies to take action on settlement or return of any claim received in an office is required to be completed within 30 days of receipt of the claim.

3.318. In case of salaries, the FAM (clause 5.14.2.5) requires that payment shall be disbursed fully on the last working day except for the last month of the RGoB's and Agent Bank's fiscal year (June and December, respectively). In the last month of the fiscal year, the Head of Office and the Drawing and Disbursing Officer (DDO) shall decide on a day not more than 10 days in advance of the close of the month for disbursement of salaries. There have not been any arrears on account of salary and pensions as these are monitored on the GPS.

3.319. In respect of works where all the billing processes are completed, but the payments could not be made due to disputes or other reasons, the provisions of the FAM's Chapter VII, 'Works Procedures and Accounting' sub-section 7.6 Completion of Works shall apply.

3.320. In case some of the liabilities to contractors/suppliers are required to be kept unsettled due to disputes or other reasons beyond the reasonable control of the Budgetary Body, the amounts considered to be admissible shall be charged to the accounting head 'Suspense Other Deposits – Closed Work'. The closed work concept shall be allowed only for those works, which have been completed in all respects before the closure of the fiscal year and all formalities like handing/taking over has been done. It cannot be applied to those works which have not been completed or which would spill over to the next fiscal years. The budgetary body shall adjust the closed works account within one month after the close of the fiscal year except for cases under legal disputes. This account, therefore, may have amounts pertaining to both disputed and undisputed claims, but segregation is not possible.

3.321. There have not been any arrears on debt servicing as all payments are made as soon as they are due by the DCDMD under the MoF's DMDF and there are no stock of arrears for salaries. Together, these two respectively comprised 51%, 43% and 49%, respectively, of the total expenditure of the RGoB, for FY 2021/22, FY 2020/21 and FY 2019/20. Though stock of

arrears in respect of works, goods and services is required to be maintained at an individual unit level, there is no system of reporting and hence status is not known centrally.

3.322. Based on the analysis and supporting evidence, the score for the dimension is D\*.

## 22.2 Expenditure arrears monitoring

3.323. **Performance level and evidence for scoring of the dimension:** The FAM prerequisites and procedures prescribe recording commitments or obligations, outside of the system of accounting, to track expenditure arrears at an individual level. Though the e-PEMS does not have complete provision to capture or record all the arrears on monthly basis, but as per clause 7.6.1.1 (a), budgetary bodies can record the total payable amount at the end of FY under the accounting head ‘Suspense Other Deposits – Closed Works’, as discussed above. For salaries, the GPS has separate monthly arrear payment records to keep track of any such arrear payments and the system is linked with e-PEMS. Debt servicing is managed by the DCDMD (*refer PI-13 on Debt Management*).

3.324. Based on the analysis and supporting evidence, the score for the dimension is D.

3.325. **Performance change since the previous assessment:** No change.

3.326. **Recent or ongoing reform activities:** The MoF is currently embarking on significant changes to improve expenditure control and arrear management in order to enhance financial reporting. That includes the Cluster Finance Service (CFS), which is a grouping/pooling of individual finance personnel from different agencies (Departments and field offices, Dzongkhags as well as autonomous agencies and constitutional bodies) under one Finance Service Unit. A recently developed online spreadsheet-based portal facilitates the CFS to maintain records on in-wards bills and payment details. The portal is to be developed into a system to cater such requirements that will assist all budgetary bodies to track and record payments details. At present, two CFS agencies are using the online portal.<sup>67</sup>

### PI-23. Payroll controls

3.327. This indicator is concerned with the payroll for public servants only: how it is managed, how changes are handled, and how consistency with personnel records management is achieved. Wages for casual labor and discretionary allowances that do not form part of the payroll system are included in the assessment of non-salary internal controls, PI-25.

**Table 3.68: Minimum scoring requirements for PI-23**

Score	Minimum requirements for scores
<b>PI-23.1 Integration of payroll and personnel records</b>	
A	Approved staff list, personnel database, and payroll are directly linked to ensure budget control, data consistency, and monthly reconciliation.
B	The payroll is supported by full documentation for <i>all</i> changes made to personnel records each month and checked against the previous month’s payroll data. Staff hiring and promotion is controlled by a list of approved staff positions.

<sup>67</sup> Bumthang CFS ([www.bit.ly/cfsbumthang](http://www.bit.ly/cfsbumthang)) and Paro CFS ([www.bit.ly/mofparo](http://www.bit.ly/mofparo)).

C	Reconciliation of the payroll with personnel records takes place at least every six months. Staff hiring and promotion is checked against the approved budget prior to authorization.
D	Performance is less than required for a C score.
<b>PI-23.2 Management of payroll changes</b>	
A	Required changes to the personnel records and payroll are updated at least monthly, generally in time for the following month's payments. Retroactive adjustments are rare. If reliable data exists, it shows corrections in a maximum of 3% of salary payments.
B	Personnel records and payroll are updated at least quarterly and require <i>a few</i> retroactive adjustments.
C	Personnel records and payroll are updated at least quarterly and require <i>some</i> retroactive adjustments.
D	Performance is less than required for a C score.
<b>PI-23.3 Internal control of payroll</b>	
A	Authority to change records and payroll is restricted, results in an audit trail, and is adequate to ensure full integrity of data.
B	Authority and basis for changes to personnel records and the payroll are clear and adequate to ensure high integrity of data.
C	Sufficient controls exist to ensure integrity of the payroll data of greatest importance.
D	Performance is less than required for a C score.
<b>PI-23.4 Payroll audit</b>	
A	A strong system of annual payroll audits exists to expose control weaknesses and identify ghost workers.
B	A payroll audit covering <i>all</i> central government entities has been conducted at least once in the last three completed fiscal years (whether in stages or as one single exercise).
C	Partial payroll audits or staff surveys have been undertaken within the last three completed fiscal years.
D	Performance is less than required for a C score.

**Table 3.69: Summary of scores for PI-23 and performance table**

Indicator/Dimension	2016 Score	2022 Score	Brief justification for score
<b>PI-23 Payroll controls</b>	<b>D+</b>	<b>D+</b>	Scoring method M1
23.1 Integration of payroll and personnel records	D	D	The payroll and personnel records are not integrated, and periodic reconciliation between the two records is not undertaken.
23.2 Management of payroll changes	A	A	The required changes to the personnel records and payroll are updated monthly. Retroactive adjustments are less than 1% of the salary expense.
23.3 Internal control of payroll	D	C	Sufficient controls exist to ensure integrity of the payroll data of greatest importance.
23.4 Payroll audit	C	C	There is no system of annual payroll audits in the RGoB, but partial payroll audits and reviews have been undertaken within the last three fiscal years.



3.328. The Royal Civil Service Commission (RCSC) is the RGoB’s central personnel agency and overall responsible for recruitment and appointment of civil servants in accordance with the Bhutan Civil Service Rules and Regulations (BCSR) 2018. It maintains a list of approved positions in each budgetary body, which is reviewed at the time of new appointments to ensure that appointed staff are in accordance with the approved strength. Additionally, the RCSC recruits contractual professional staff financed through the RGoB budget.

3.329. Payroll management for civil servants working in EBUs is undertaken by the responsible ‘parent’ ministries/agencies, which apply the Government Payroll System (GPS). The exceptions are the Bhutan Trust Fund for Environmental Conservation (BT FEC) and the Bhutan Health Trust Fund (BHTF), but as the payroll for these is not material they have not been considered for PI-23.

### 23.1 Integration of payroll and personnel records

3.330. **Performance level and evidence for scoring of the dimension:** The personnel records of civil servants and contractual staff are maintained by the RCSC using the Zhiyog Electronic System (ZEst), web-based human resource management system, as well as in hard-copy files. ZEst was launched in February 2020 and went live in July 2020 with migrated data from the previous web-based system (Civil Service Information System (CSIS)). In addition, a service book (hard-copy) for each civil servant is maintained by the Human Resource Divisions (HRDs) of the budgetary bodies. The personnel records are updated in the ZEst and the hard-copy personnel files (by the RCSC) and in the service book (by the HRDs), but there is no regular reconciliation of these three datasets. The monthly payroll is prepared in the GPS, a module in e-PEMS, which was implemented in 2019. Employee details are created one-time in the GPS by the first agency where the employee is posted along with financial data provided by the DTA. All budgetary bodies are required to use the GPS for payroll processing, and salary disbursement is done through the e-PEMS. The two systems, GPS and e-PEMS, are integrated to ensure a seamless transfer of pay-bill information and payroll disbursement. All employees receive their pay and allowances through direct bank transfers.

3.331. Presently, there is no integration between the personnel records in ZEst and payroll data in GPS. The IT teams of the RCSC and the DTA carried out data reconciliation between ZEst and GPS at the time of migration from CSIS to ZEst (i.e., in early 2020), but such reconciliations are not done regularly. The RAA in its June 2022 report on the performance audit of e-PEMS highlights instances of data mismatch between the GPS module of the e-PEMS and the ZEst – with respect to regular employees it noted that “1,642 employees from ZEst are not found in e-PEMS and 1,849 employees are not found in ZEst data”, and with respect to contractual staff, a discrepancy was noted in that “572 contract employees that does not exist in e-PEMS whereas 9,569 employees are found in ZEst”.<sup>68</sup>

3.332. Based on the analysis and supporting evidence, the score for the dimension is D.

---

<sup>68</sup> <https://www.bhutanaudit.gov.bt/wp-content/uploads/2022/06/Performance-Audit-of-e-PEMS.pdf>.

## 23.2 Management of payroll changes

3.333. **Performance level and evidence for scoring of the dimension:** Human resource (HR) changes of new recruitments, promotions, transfers and increments mainly take place in January and July, although there may be changes during other months – such orders generally become effective from the 1<sup>st</sup> or the 15<sup>th</sup> of the month. Changes to personnel records and payroll are updated manually in the same or subsequent month of change. Payroll is processed during the last week (25<sup>th</sup>/26<sup>th</sup>) of the month. For staff changes prior to payroll processing, the receiving office is responsible for the payroll, but in rare cases the relieving agency retains responsibility for the month of change. Retroactive adjustments for arrears during FY 2019/20 were primarily on account of pay revisions, including clarifications on entitlements or errors in pay fixation. Details of payroll changes in monetary terms are provided in the table below.

**Table 3.70: Details of payroll changes (Nu. Million)**

Fiscal Year	Arrears (a)	Recoveries (b)	Total changes (c)= (a)+(b)	Total salary expense (d)	Changes as a % of total salary expense (e)=(c)/(d)
2018/19	44.53	11.70	56.23	11,551.53	0.5%
2019/20	129.51	13.64	143.15	16,213.05	0.9%
2020/21	46.97	13.12	60.09	16,804.62	0.4%
2021/22	74.57	19.24	93.81	17,368.54	0.5%

Source: DTA records from e-PEMS.

3.334. Required changes to personnel records and the payroll are updated during the same or subsequent month of change. Retroactive adjustments are each year less than 1% of the salary expenses, as seen above.

3.335. Based on the analysis and supporting evidence, the score for the dimension is A.

## 23.3 Internal control of payroll

3.336. **Performance level and evidence for scoring of the dimension:** Every ministry and agency has a department responsible for payroll, which makes changes to payroll records. Currently, updates in the payroll are done manually in GPS at the user agency based on HR orders issued by the RCSC or the respective agency (depending on the nature of the HR action). Changes in the GPS may be made at two levels: (i) global level by the administrative user at the DTA to reflect an increase in overall scales or change in employee status (e.g., provision to activate an employee after joining from extraordinary leave (EOL)); and, (ii) changes at the agency user level to reflect employee-related changes such as promotion or transfer. There are rules for adequate segregation of duties with maker-checker controls in place in respect to changes in the employee-related data. However, enforcement is an issue given the limited human resources, especially in smaller budgetary bodies. Proper history of the transactions is maintained with adequate audit trail in the GPS module of e-PEMS.

3.337. All entities are required to use the GPS module of e-PEMS for payroll processing. Compared to the earlier PEMS, certain control enhancements have been incorporated into GPS (for instance, automation of the Last Pay Certificate in GPS, which ensures that an employee's salary is paid only at one administrative unit). The employee master database in GPS is linked to the RAMIS database for identifying the citizen ID, although it is manually entered in the latter. The RAA in its June 2022 report on the performance audit of e-PEMS highlights the need to strengthen validation controls in the GPS for data fields – such as Citizen and Employee ID number, Provident Fund (PF) account number, employee type and category – as it may impact the reliability of data. The RAA also highlights a few instances of inadmissible salary payments to staff on EOL (Nu. 1.01 million) and to staff on long-term training (Nu. 2.32 million), and instances of incorrect salary deductions as regards PF and health contributions. There are no further observations on payroll controls in the RAA's Annual Audit Report (AAR) for FY 2021/22.

3.338. Based on the analysis and supporting evidence, the score for the dimension is C.

#### **23.4 Payroll audit**

3.339. **Performance level and evidence for scoring of the dimension:** There had been no full-fledged payroll audit conducted by the RCSC, Internal Audit Section (IAS), or RAA during the last three fiscal years. However, a few reviews partially covering aspects of payroll control have been undertaken. For instance, the RCSC's HR Audit Division, which has nine staff and is mandated to audit agency-level HR actions and personnel records, must cover every entity once in two years. A self-service portal for validating HR information has been made available to employees. Additional pay fixation reviews were conducted in FY 2019/20 by the IAS. The RAA in its June 2022 performance audit of the e-PEMS covered aspects of payroll control. Financial implications emanating from such HR audits/reviews are taken up by the respective agency's finance team.

3.340. Based on the analysis and supporting evidence, the score for the dimension is C.

3.341. **Performance change since the previous assessment:** The rating for PI-23.3 has improved from D in 2016 to C in 2022, which is because the RGoB over the last few years has revamped its systems, including the human resource management system (transitioned from CSIS to ZEst) and created a separate payroll system (GPS) as a module in e-PEMS.

3.342. **Recent or ongoing reform activities:** The RCSC is digitizing the hard-copy personnel files and uploading these in ZEst (to the extent possible). The RCSC and the MoF's DTA, in collaboration with the PMO and the Department of Information Technology and Telecom (DITT) of the Ministry of Information and Communications (MoIC), have initiated integration of the ZEst and the GPS, which is expected to be completed by June 2023. With the integration of the systems, the civil servants master database in the ZEst (which has linkages to the Census database) will form the basis for payroll management in the GPS. Any changes in the ZEst will have effect in the GPS with proper history of the transactions and an adequate audit trail.

3.343. Furthermore, to overcome the challenge of limited human resources affecting segregation of duties, the DTA is establishing CFS, which is expected to strengthen maker-checker controls.

### PI-24. Procurement

3.344. This indicator examines key aspects of procurement management. It focuses on transparency of arrangements, emphasis on open and competitive procedures, monitoring of procurement results, and access to appeal and redress arrangements.

**Table 3.71: Minimum scoring requirements for PI-24**

Score	Minimum requirements for scores
<b>PI-24.1 Procurement monitoring</b>	
A	Databases or records are maintained for contracts including data on what has been procured, value of procurement, and who has been awarded contracts. The data are accurate and complete for <b>all</b> procurement methods for goods, services and works.
B	Databases or records are maintained for contracts including data on what has been procured, value of procurement, and who has been awarded contracts. The data are accurate and complete for <b>most</b> procurement methods for goods, services and works.
C	Databases or records are maintained for contracts including data on what has been procured, value of procurement, and who has been awarded contracts. The data are accurate and complete for the <b>majority</b> of procurement methods for goods, services and works.
D	Performance is less than required for a C score.
<b>PI-24.2 Procurement methods</b>	
The total value of contracts awarded through competitive methods in the last completed fiscal year represents:	
A	80% or more of total value of contracts.
B	70% or more of total value of contracts.
C	60% or more of total value of contracts.
D	Performance is less than required for a C score.
<b>PI-24.3 Public access to procurement information</b>	
Key procurement information to be made available to the public comprises: (1) legal and regulatory framework for procurement (2) government procurement plans (3) bidding opportunities (4) contract awards (purpose, contractor and value) (5) data on resolution of procurement complaints (6) annual procurement statistics	
A	Every key procurement information element is complete and reliable for government units representing <b>all</b> procurement operations and is made available to the public in a timely manner.
B	At least four of the key procurement information elements are complete and reliable for government units representing <b>most</b> procurement operations and are made available to the public in a timely manner.
C	At least three of the key procurement information elements are complete and reliable for government units representing the <b>majority</b> of procurement operations and are made available to the public.

D	Performance is less than required for a C score.
<b>PI-24.4 Procurement complaints management</b>	
Complaints are reviewed by a body that: (1) is not involved in any capacity in procurement transactions or in the process leading to contract award decisions (2) does not charge fees that prohibit access by concerned parties (3) follows processes for submission and resolution of complaints that are clearly defined and publicly available (4) exercises the authority to suspend the procurement process (5) issues decisions within the timeframe specified in the rules/regulations, and (6) issues decisions that are binding on every party (without precluding subsequent access to an external higher authority)	
A	The procurement complaint system meets every criterion.
B	The procurement complaint system meets criterion (1), and three of the other criteria.
C	The procurement complaint system meets criterion (1), and one of the other criteria.
D	Performance is less than required for a C score.

**Table 3.72: Summary of scores for PI-24 and performance table**

Indicator/Dimension	2016 Score	2022 Score	Brief justification for score
<b>PI-24 Procurement</b>	<b>B</b>	<b>B</b>	Scoring method M2
24.1 Procurement monitoring	C	C	About one-third of procurement is carried out through the electronic government procurement (e-GP) system. For the balance, procurement records are maintained at the agency-level. Records are accurate and complete for a majority of transactions with data on what has been procured, value of procurement, and who has been awarded contracts.
24.2 Procurement methods	B	B	As per the PRR 2019, the basic method of procurement is open tender. It comprises more than 76% of total value of all contracts (e-GP and manually) awarded during FY 2021/22.
24.3 Public access to procurement information	B	B	All key procurement information for national procurement is publicly available on <a href="http://www.egp.gov.bt">www.egp.gov.bt</a> , except for annual procurement statistics. Information on bidding opportunities and contract awards for tenders outside the e-GP is made available through national media and on the websites of the respective procuring entities.
24.4 Procurement complaints management	A	A	The complaint resolution system meets six out of six criteria. Grievances are processed through the e-GP system and all decisions are accessible to the public.

## 24.1 Procurement monitoring

3.345. **Performance level and evidence for scoring of the dimension:** About one-third of procurement is carried out through the electronic government procurement (e-GP) system, which maintains data for procurement of goods, works and services. For contracts awarded outside the e-GP, records are required to be maintained manually in the respective agencies. Based on a review of sample transactions it was found that records are accurate and complete for a majority of transactions with data on what has been procured, value of procurement, and who has been awarded contracts.

3.346. The Construction Development Board maintains an online evaluation, monitoring and reporting system, and a ciNet system through which data of national contractors is maintained for construction works contracts.

3.347. The Simplified Procurement Rules and Regulations (SPRR) 2021 mandates the tender committee to mandatorily carry out compliance monitoring, including work progress, milestones, quality inspection and ensure the works are executed in accordance with the contract. The procurement officer shall be involved in the entire procurement process, including monitoring.

3.348. Based on the analysis and supporting evidence, the score for the dimension is C.

## 24.2 Procurement methods

3.349. **Performance level and evidence for scoring of the dimension:** As per the Procurement Rules and Regulations (PRR) 2019, Clause 4.2.2.1, the open tender method is the basic/preferred method for government procurement, unless there are circumstances which justify the use of other exceptional methods of procurement. Therefore, all government procurement must be invited using the open tender method, and agencies must justify and seek approval to invite tenders through other methods (limited tendering, limited enquiry, and direct contracting). Thresholds for application of the procurement methods are defined in Clause 4.1 of PRR 2019, and these thresholds are one of the guiding principles to determine the method of procurement to be adopted.

3.350. In order to establish the extent of use of competitive methods, the five central government highest spending entities were selected – Ministry of Education (MoE), Ministry of Health (MoH), Ministry of Agriculture and Forest (MoAF), Ministry of Works and Human Settlement MoWHS), and Ministry of Labor and Human Resources (MoLHR) – and tender data collected.

3.351. The value of procurement undertaken by the RGoB entities (i.e., excluding Dzongkhags, Gewogs and Thromdes) during the FY 2021/22 is shown in the table below.

**Table 3.73: Value of procurement undertaken by RGoB during FY 2021/22**

Procurement Method	Through e-GP (Nu. Million)	Manual outside e-GP (Nu. Million)	Total (Nu. Million)	Share
Open tender	1,716.77	2,120.53	3,837.30	76%
Limited tendering	51.15	800.087	851.24	17%
Limited enquiry	59.46	127.94	187.40	4%
Direct contracting	0.92	155.55	156.47	3%
<b>Total for FY 2021/22</b>	<b>1828.31</b>	<b>3,204.10</b>	<b>5,032.41</b>	<b>100%</b>
Share	36.33%	63.67%	100%	

3.352. As per the data collected and assessed, during the FY 2021/22 a total of 76% of tenders were awarded through the open tender method.

3.353. Based on the analysis and supporting evidence, the score for the dimension is B.

### 24.3 Public access to procurement information

3.354. **Performance level and evidence for scoring of the dimension:** The e-GP portal provides public access to procurement information as regards the regulatory framework and the processes for procurement undertaken through the e-GP, as per the below table.

**Table 3.74: Key procurement information to be made available to the public comprises**

Element/ Requirements	Met (Y/N)	Evidence used/Comments
(1) Legal and regulatory framework for procurement	Yes	The PRR 2019 and subsidiary documents, including Small Category Standard Bidding Documents (SBDs) for ADB- and World Bank-funded projects, are available on the e-GP portal ( <a href="https://www.egp.gov.bt/eSBDs.jsp">https://www.egp.gov.bt/eSBDs.jsp</a> ).
(2) Government procurement plans	Yes	As per the PRR 2019, Clause 1.1.7, tenders cannot be initiated without approval of the APPs by the Head of Procuring Agency (HoPA) in the e-GP system ( <a href="https://www.egp.gov.bt/resources/common/AppListing.jsp">https://www.egp.gov.bt/resources/common/AppListing.jsp</a> ), which is integrated with the MYRB system.
(3) Bidding opportunities	Yes	All bidders registered in the e-GP are notified via e-mail/SMS when tenders are initiated in the e-GP. There is no registration fee or document fee for bidders. The Construction Development Board also publishes the tender information ( <a href="http://www.cdb.gov.bt/web/tenderlist">http://www.cdb.gov.bt/web/tenderlist</a> ). Tenders initiated outside of the e-GP have to be announced in the national media accessible to all eligible bidders (Clause 5.1.2 of the PRR 2019).
(4) Contract awards (purpose, contractor and value)	Yes	All contract award information must be published as per PRR 2019, Clause 6.1. Contract award notices are displayed in the e-GP ( <a href="https://www.egp.gov.bt/resources/common/ContractListing.jsp">https://www.egp.gov.bt/resources/common/ContractListing.jsp</a> ) with the following details: (i) Procuring agency, (ii) Tender ID, reference number, title and advertisement date, (iii) Procurement method, (iv) Date of Notification of Award, (v) Contract awardee.



Element/ Requirements	Met (Y/N)	Evidence used/Comments
		Details for procurement undertaken outside the e-GP are maintained by the respective procuring agencies with details similar to those maintained in the e-GP.
(5) Data on resolution of procurement complaints	Yes	All decisions by the Independent Review Body (IRB) are published on the e-GP portal ( <a href="https://www.egp.gov.bt/Grievance.jsp?submenu=Decision&amp;lang=en_US&amp;langForMenu=en_US">https://www.egp.gov.bt/Grievance.jsp?submenu=Decision&amp;lang=en_US&amp;langForMenu=en_US</a> ).
(6) Annual procurement statistics	No	Annual procurement statistics are not yet being prepared and published.

3.355. The requirements for key procurement information available to the public are met for five of six elements.

3.356. Based on the analysis and supporting evidence, the score for the dimension is B.

#### **24.4 Procurement complaints management**

3.357. **Performance level and evidence for scoring of the dimension:** The Independent Review Body (IRB) was established in 2015, and Rules and Procedures of the IRB issued at the same time.<sup>69</sup> The MoF's Procurement Management and Development Division (PMDD) functions as secretariat to the IRB.

3.358. Clause 16 (I) of Rules and Procedures states that the IRB must ensure that no members have conflict of interest pertaining to issues to be discussed and refrain from participation in the specific meetings, if any, and it requires that members sign a Confidentiality and Declaration of Interest form (annexed in the Rules and Procedures) in every meeting. Clause 8.1.3 of the PRR 2019 allows an aggrieved bidder, in the event of a perceived breach of a duty imposed upon a procuring agency in respect of a specific procurement procedure, to submit a written complaint to the head of the procuring agency responsible promptly (within 10 days of the letter of intent to award the contract). However, Clause 32(IV) of Rules and Procedures of the IRB requires bidders to pay a nominal registration fee of Nu. 5,000. The intention is not to discourage bidders from complaining, but to discourage baseless complaints. The Rules and Procedures of the IRB clearly define the processes for submission and resolution of complaints. The Rules and Procedures of the IRB also provide for the IRB to suspend a procurement process, issue decisions within the timeframe specified, and issue decisions that are binding on all parties (without precluding subsequent access to an external higher authority).

3.359. The arrangements for the functioning of the IRB are assessed as in the table below.

<sup>69</sup> <https://www.egp.gov.bt/Independent%20Review%20Body%20-%20Rules%20and%20Procedures.pdf>.

**Table 3.75: Complaints are reviewed by a body that**

Element/ Requirements	Met (Y/N)	Evidence used/Comments
(1) is not involved in any capacity in procurement transactions or in the process leading to contract award decisions.	Yes	The IRB is a seven-member body with representation from different RGoB entities and the private sector, with all participants at Director-level and above, none of which participate in procurement transactions or contract awards decisions.
(2) does not charge fees that prohibit access by concerned parties.	Yes	Only a nominal fee of Nu. 5,000 (approximately \$66.60) is charged for registration of cases with the IRB, irrespective of the value of the procurement.
(3) follows processes for submission and resolution of complaints that are clearly defined and publicly available.	Yes	The IRB is guided by the Rules and Procedure of the IRB 2015, which clearly define the entire IRB process along with the time periods for grievance redressal. Relevant documents and all past decisions are publicly accessible on the <a href="http://www.egp.gov.bt">www.egp.gov.bt</a> .
(4) exercises the authority to suspend the procurement process.	Yes	When a case is registered and accepted by the IRB Secretariat, the procurement procedure is suspended as per PRR 2019 Clause 8.1.8 and Clause 18 of Rules and Procedure of IRB, and a letter is sent to the Procuring Agency seeking response to the application submitted by the aggrieved bidder.
(5) issues decisions within the timeframe specified in the rules/ regulations.	Yes	As per Clause 58 of Rules and Procedure of the IRB, the decision has to be delivered within 10 days from the commencement of review proceedings.
(6) issues decisions that are binding on every party (without precluding subsequent access to an external higher authority).	Yes	Since the establishment of the IRB in 2015, the majority of decisions have been honored by both parties. Till date only one case has been appealed to the Royal Court of Justice.

3.360. The requirements for the functioning of the complaints resolution mechanism are met for all six elements.

3.361. Based on the analysis and supporting evidence, the score for the dimension is A.

3.362. **Performance change since the previous assessment:** There is no change in the score of PI-24 from 2016 to 2022.

3.363. **Recent or ongoing reform activities:** The following reform activities are being undertaken:

- a. RGoB has implemented an e-GP system over three phases. The phase III of the said system will be launched in July 1, 2023 which will further enhance transparency, economy and efficiency for RGoB.
- b. Change in evaluation parameter for large works: Works above Nu. 5 million with a 30% of technical score carried forward to the second stage of evaluation ((Notification No. MoF/DPP/PMDD-14/2021-22/1460 dated 31 May 2022).
- c. Issuance of Simplified Procurement Rules and Regulations to expedite public procurement during the COVID-19 Pandemic period.

- d. Constitution and implementation of Debarment Committee.
- e. Replacing bid security with bid securing declaration for all categories of procurement.
- f. Public procurement review and reform (reviewing existing policies and regulations, and project delivery methods).
- g. Study on Sustainable Consumption and Production (SCP) in Asia (five countries).
- h. Development of e-Reverse Auction method of procurement for the e-GP system.

**PI-25. Internal controls on non-salary expenditure**

3.364. This indicator measures the effectiveness of general internal controls for non-salary expenditures. Specific expenditure controls on public service salaries are considered in PI-23.

**Table 3.76: Minimum scoring requirements for PI-25**

Score	Minimum requirements for scores
<b>PI-25.1 Segregation of duties</b>	
A	Appropriate segregation of duties is prescribed throughout the expenditure process. Responsibilities are clearly laid down.
B	Segregation of duties is prescribed throughout the expenditure process. Responsibilities are clearly laid down for <b>most</b> key steps while further details may be needed in a few areas.
C	Segregation of duties is prescribed throughout the expenditure process. More precise definition of important responsibilities may be needed.
D	Performance is less than required for a C score.
<b>PI-25.2 Effectiveness of expenditure commitment controls</b>	
A	Comprehensive expenditure commitment controls are in place and effectively limit commitments to projected cash availability and approved budget allocations.
B	Expenditure commitment controls are in place and effectively limit commitments to projected cash availability and approved budget allocations for <b>most</b> types of expenditure.
C	Expenditure commitment control procedures exist which provide partial coverage and are partially effective.
D	Performance is less than required for a C score.
<b>PI-25.3 Compliance with payment rules and procedures</b>	
A	<b>All</b> payments are compliant with regular payment procedures. <b>All</b> exceptions are properly authorized in advance and justified.
B	<b>Most</b> payments are compliant with regular payment procedures. The <b>majority</b> of exceptions are properly authorized and justified.
C	The <b>majority</b> of payments are compliant with regular payment procedures. The <b>majority</b> of exceptions are properly authorized and justified.
D	Performance is less than required for a C score.

**Table 3.77: Summary of scores for PI-25 and performance table**

Indicator/Dimension	2016 Score	2022 Score	Brief justification for score
PI-25 Internal controls on non-salary expenditure	A	A	Scoring Method M2

25.1 Segregation of duties	A	B	Segregation of duties is prescribed throughout the expenditure process. Responsibilities are clearly laid down for most key steps, while further details may be needed in a few areas.
25.2 Effectiveness of expenditure commitment controls	A	A	Comprehensive expenditure commitment controls are in place and effectively limit commitments to projected cash availability and approved budget allocations.
25.3 Compliance with payment rules and procedures	A	A	All payments are compliant with regular payment procedures. All exceptions are properly authorized in advance and justified.

3.365. The internal control framework for non-salary expenditure is guided by the FRR 2016, and is specifically documented in the FAM and the FMM.

### 25.1 Segregation of duties

3.366. **Performance level and evidence for scoring of the dimension:** The FMM states that the line ministries, departments and autonomous agencies shall be primarily responsible for installation and implementation of adequate systems of internal control within the agencies, including subordinate units, to prevent misuse, misappropriation and wastage of RGoB funds and properties, and to introduce accountability at every level (Clause 2.2.8.b). Furthermore, it states that an internal control system in an agency, among other things, must ensure that different stages of a transaction process are handled by different persons and, in particular, that the verifying officer, the sanctioning authority and disbursement officers shall preferably be different persons (Clause 3.3.7).

3.367. The FMM includes a Schedule of Delegation of Financial Powers (Appendix I), which specifies different types and levels of delegation of financial powers at the following levels:

- Head of Ministry/Chief Justice of Bhutan/Speaker/Chairperson
- Head of Secretariat / Constitutional Bodies/Autonomous Agency
- Head of Department/Directorate/Embassy/Mission/Consulate
- Drangpon
- Dzongkhag Tshogdu/ThromdeTshogde
- Dzongdag/Thrompon
- Gewog Tshogde
- Gup

3.368. The FAM states that the specific requirements must be fulfilled to establish the legitimacy of claims against the RGoB and make payments out of RGoB funds (Clause 5.6.4):

- a) Existence of a sanction of expenditure
- b) Recording of verification of claims

- c) Preparation of disbursement voucher
- d) Approval of expenditure and
- e) Payment.

3.369. To establish segregation of duties, the FAM requires the following functions to be handled by different officials as documented below:

- Sanctioning Officer: An officer to whom adequate financial powers have been delegated under the relevant rules shall issue a Sanction of Expenditure wherever practicable, on the basis of a proposal submitted by the head of a unit or section and verified by the head of the finance section (Clause 5.7.3).
- Verifying Officer: An officer delegated with the responsibilities for supervision and/or maintenance of records pertaining to particular activities or functions, shall verify any claims pertaining to those supplies or services delivered, utilities provided or works executed (Clause 5.8.2).
- Preparer: Based on the above, finance personnel prepare a disbursement voucher for payment or journal number for adjustments (Clause 5.9.1).
- Approving Officer: The Head of Office, or an Officer designated as the Drawing and Disbursing Officer (DDO), approves all disbursement/journal vouchers for payment or adjustment (Clause 5.10.1).

3.370. The implementation of e-PEMS has digitized the budget execution process across the RGoB, from budget allocations (being sourced from the MYRB system) to allocation, execution, payments, and reporting. Access to e-PEMS is provided only to finance officials, unlike the previous system that allowed approvers to be non-finance officials (mostly head of office/agency). Segregation of duties, as envisaged in the FRR, has been built into the e-PEMS workflow, but implementation is challenging in small agencies with few finance staff. In these cases, the Accountant is responsible for preparation, verification and approval of the transaction in e-PEMS as well as communicating the payment instruction to the bank after obtaining the requisite approvals from the superiors on the hard copy documentation.

3.371. The RAA in its June 2022 report on the performance audit of the e-PEMS notes that while the maker-checker concept is defined in the system, it is not implemented in actual practice as a large number of users are provided with all level access rights.<sup>70</sup> This has in some cases resulted in override of controls, and there are examples of some users having embezzled funds using their access to the system for preparation of vouchers, approval and payments. The DTA has responded that the maker-checker process, while embedded in the system, is not possible to strictly follow in cases of “*single handed accounting functionaries such as regional/field offices and Gewogs*”, although this was being sought addressed with the establishment of CFS.

3.372. Based on the analysis and supporting evidence, the score for the dimension is B.

---

<sup>70</sup> <https://www.bhutanaudit.gov.bt/wp-content/uploads/2022/06/Performance-Audit-of-e-PEMS.pdf>.

## 25.2 Effectiveness of expenditure commitment controls

3.373. **Performance level and evidence for scoring of the dimension:** Article 61 of the PFA 2007 states that ‘budgetary bodies shall expend public money only in accordance with an appropriation under the Budget and Appropriation Act’. Similarly, Article 62 prohibits budgetary bodies from carrying out activities for which there is no provision in the Budget and Appropriation Act or other lawful authority, while Article 63 states that budgetary bodies may not make commitments that have financial implications beyond the limits authorized by the Budget and Appropriation Act.

3.374. Accordingly, system restrictions have been put in place in the e-PEMS which prevents booking of expenditure beyond the budget appropriation and releases of funds in the bank accounts of the budgetary bodies. Therefore, availability of budget appropriation and release of funds are the determining factors for incurring any expenditure or making commitments by the budgetary bodies. There is therefore no question of outstanding commitments or over-spilling of commitments beyond the fiscal allocations. Also, the BMT helps to ensure that procurement is within allocated budgets (linked with the MYRB system), and payments (through e-PEMS) are in line with contractual terms.

3.375. The RGoB follows a system of issuing Letter of Credit (LC) Account and Project Letter of Credit Account (PLC) to prevent commitments from exceeding projected cash availability. LC and PLC Accounts are the drawing sub-accounts of the GCA allotted to the budgetary bodies to facilitate withdrawals of funds for execution of budgetary activities. Through the LC/PLC, the budgetary bodies submit a monthly BRF. The DTA’s approval of BRFs specifies the limit up to which drawing authorities of the budgetary bodies can withdraw funds for their budgeted expenditures. There is no physical cash in these LC and PLC accounts, but only a notional drawing limit. The payment instructions authorization against these accounts is charged to the GCA on a daily basis.

3.376. Neither the RAA nor internal auditors have made observations with respect to the effectiveness of expenditure commitment controls.

3.377. Based on the analysis and supporting evidence, the score for the dimension is A.

## 25.3 Compliance with payment rules and procedures

3.378. **Performance level and evidence for scoring of the dimension:** All budgetary bodies execute their activities as per approved allocations in line with Section 61 of the PFA 2007, which states that budgetary bodies shall expend public money only in accordance with an appropriation under the Budget and Appropriation Act. The control over payments is built into the e-PEMS workflow as per the provisions of the FRR 2016, and all budgetary bodies must adhere to it. Some of the system controls are as follows:

- a) No payments can be processed without budget provision.
- b) Even if there is budget provision, a payment cannot be processed if there is no fund released against the particular donor-funded activity. With respect to RGoB-funded activities, release is fungible amongst activities.

3.379. All exceptions are properly authorized in advance and justified. To the extent that actual costs are projected to go beyond the initially budgeted amount, for example for civil works, there are clear procedures in place ensure that approval is sought as per the price adjustment procedures stated in the PPR 2019.

3.380. Additional developments, such as the electronic Daily Allowance and Travel System (e-DATS) and e-PEMS monitoring dashboard developed in recent years, aim to strengthen the internal controls.

3.381. The RAA in its financial audits assesses the effectiveness of controls and requires recovery of irregular payments. The external audit process is a major component in ensuring the adequacy of the internal control system.

3.382. The financial implications of audit findings, noted by the RAA in the AAR for FY 2020/21, are shown in the table below.

**Table 3.78: Financial implication of the RAA’s audit findings for FY 2020/21**

Type	Amount (Nu. Million)	Share
<b>Fraud and corruption</b> (malpractices and abuses; misappropriation of cash; payments for works not executed; and fictitious payments).	133.006	3.3%
<b>Non-compliance with laws, rules and regulations</b> (procurement norms; financial norms; other policies, laws, regulations; and human resource management norms).	2,325.336	58.1%
<b>Shortfalls, lapses and deficiencies</b> (shortfalls on uneconomical operations, and deficiencies on property management).	1,544.106	38.6%
<b>Total</b>	<b>4,002.448</b>	<b>100.0%</b>

3.383. The total amount represents 6.71% of the RGoB’s expenditure (excluding payroll and its related expenses amounting to Nu. 16,805 million) for the FY 2020/21. The share would be higher (7.40%) if financial expenses of Nu. 5,600 million were excluded from the RGoB’s expenditure. Compliance with rules and regulations is high, and more than 90% of payments are executed in accordance with rules and procedures, as seen from the analysis above.

3.384. Based on the analysis and supporting evidence, the score for the dimension is A.

3.385. **Performance change since the previous assessment:** The score of PI-25.1 has changed from A in 2016 to B in 2022 due to issues regarding segregation of duties.

3.386. **Recent or ongoing reform activities:** The RGoB is currently updating the FAM to incorporate changes that follow from recent PFM reforms.

3.387. The implementation of the CFS will minimize single-person accounting functionalities and will strengthen internal checks and controls through segregation of duties. Establishing the CFS will furthermore help to enforce the rules in e-PEMS. There are two types of CFS: (i)



CFS in a separate office, and (ii) merger of small and few agencies with the Dzongkhag administration. There are currently 23 CFS operational.

### PI-26. Internal audit

3.388. This indicator assesses the standards and procedures applied in internal audit.

**Table 3.79: Minimum scoring requirements for PI-26**

Score	Minimum requirements for scores
<b>26.1 Coverage of internal audit</b>	
A	Internal audit is operational for <b>all</b> central government entities.
B	Internal audit is operational for central government entities representing <b>most</b> of total budgeted expenditures and for central government entities collecting <b>most</b> of budgeted government revenue.
C	Internal audit is operational for central government entities representing the <b>majority</b> of budgeted expenditures and for central government entities collecting the <b>majority</b> of budgeted government revenue.
D	Performance is less than required for a C score.
<b>26.2 Nature of audits and standards applied</b>	
A	Internal audit activities are focused on evaluations of the adequacy and effectiveness of internal controls. A quality assurance process is in place within the internal audit function and audit activities meet professional standards, including focus on high risk areas.
B	Internal audit activities are focused on evaluations of the adequacy and effectiveness of internal controls.
C	Internal audit activities are primarily focused on financial compliance.
D	Performance is less than required for a C score.
<b>26.3 Implementation of internal audits and reporting</b>	
A	Annual audit programs exist. <b>All</b> programmed audits are completed, as evidenced by the distribution of their reports to the appropriate parties.
B	Annual audit programs exist. <b>Most</b> programmed audits are completed, as evidenced by the distribution of their reports to the appropriate parties.
C	Annual audit programs exist. The <b>majority</b> of programmed audits are completed, as evidenced by the distribution of their reports to the appropriate parties.
D	Performance is less than required for a C score.
<b>26.4 Response to internal audits</b>	
A	Management provides a full response to audit recommendations for <b>all</b> entities audited within twelve months of the report being produced.
B	Management provides a partial response to audit recommendations for <b>most</b> entities audited within twelve months of the report being produced.
C	Management provides a partial response to audit recommendations for the <b>majority</b> of entities audited.
D	Performance is less than required for a C score.

**Table 3.80: Summary of scores for PI-26 and performance table**

Indicator/Dimension	2016 Score	2022 Score	Brief justification for score
<b>PI-26 Internal audit</b>	<b>C+</b>	<b>B+</b>	Scoring method M1
26.1 Coverage of internal audit	B	B	Internal audit is operational for central government entities representing 82% of total budgeted expenditures, and for central government entities collecting all budgeted government revenue.
26.2 Nature of audits and standards applied	C	B	Internal audit activities are focused on evaluations of the adequacy and effectiveness of internal controls. A quality assurance process is in place within the internal audit function.
26.3 Implementation of internal audits and reporting	A	A	Annual audit programs exist. During FY 2021/22, 92% of programmed audits were completed, as evidenced by the distribution of their reports to the appropriate parties.
26.4 Response to internal audits	C	B	Management provides a partial response to audit recommendations for most entities audited, within twelve months of the report being produced.

3.389. The MoF's Central Coordinating Agency (CCA) is responsible for administering the internal audit service in budgetary bodies, both at central and sub-national levels under RGoB. Internal audit was introduced in 2000 and, since then, despite difficulties, it has been increasingly accepted as a tool used internally by organizations to manage risk and implement governance and control. Internal audit is one of the important components in the national internal control framework along with the RAA and the Anti-Corruption Commission (ACC). At the time of the assessment, the RGoB had functioning Internal Audit Units (IAUs) in 27 government agencies of which twelve IAUs are in central government agencies and 15 IAUs are in subnational government agencies (i.e., LGs).

3.390. As a coordinating agency, the CCA issues internal audit guidelines, coordinates the function and evaluates internal audit activities in the agencies. The CCA has issued a Charter, Internal Audit Manual, Code of Conduct for Internal Auditors, Internal Auditing Standards, Quality Assurance and Improvement Program Guidelines for Internal Auditors and Performance Audit Guidelines.<sup>71</sup> It has also developed a protocol for reviewing the data accuracy in the GIMS.

### **26.1 Coverage of internal audit**

3.391. **Performance level and evidence for scoring of the dimension:** At the time of assessment, 12 functioning IAUs in ten ministries and two autonomous agencies implemented audit plans and produced reports. The expenditure and revenue coverage of internal audit in FY 2021/22 is shown below.

<sup>71</sup> <https://www.mof.gov.bt/publications/>.

**Table 3.81: Expenditure coverage of internal audit in FY 2021/22<sup>72</sup>**

Government Budgeted Expenditures (GBE) Central Government Entity with (1) internal auditors placed and (2) approved internal audit plan	Budgeted Expenditure (Nu. Million)	% of Total GBE
a) Total GBE for the RGoB (Central Agencies)	47,887.39	
b) Total GBE for 10 Ministries having Internal Audit	36,946.02	
c) Total GBE for Autonomous Agencies having Internal Audit	2,140.70	
<b>d) Total GBE Expenditure subject to Internal Audit (b+c)</b>		<b>39,086.72</b>
<i>e) Total GBE Expenditure covered under Internal Audit as % of total GBE of the RGoB [d/a]</i>		82%

**Table 3.82: Revenue coverage of internal audit in FY 2021/22<sup>73</sup>**

Government Budgeted Revenue (GBR)	Budgeted Expenditure (Nu. Million)	% of Total GBE
a) Total GBR for the RGoB	35,600	
b) Total GBR covered under Internal Audit	35,600	
<i>c) Total GBR subject to Internal Audit as % of total GBR of the RGoB (b/a)</i>		100%

3.392. The total budget of the central agencies having functional IAUs constitutes 82% of the overall budgeted expenditure of the RGoB (FY 2021/22) and 100% of the budgeted revenue.

3.393. All revenues of the RGoB are deposited in the consolidated revenue account, which is collected and administered by the MoF's DRC. Internal audit in the DRC is conducted by the MoF's IAU.

3.394. Based on the analysis and supporting evidence, the score for the dimension is B.

## **26.2 Nature of audits and standards applied**

3.395. **Performance level and evidence for scoring of the dimension:** Annual internal audit plans are formulated before the start of the fiscal year based on risk assessments. The internal audit function of the RGoB has adopted the International Standards for the Professional Practice of Internal Auditing (IPPF/Standards) issued by the Institute of Internal Auditors (IIA). There are risk-based audit plans to prioritize agencies and/or programs. Based on the prioritized risk areas in the audit plans, audit engagements of the internal auditors are aimed towards evaluating the effectiveness of the internal controls which is intended to assist the management in continuously improving the processes that are in place.

<sup>72</sup> The supplementary budget has not been included as it is considered not significant being less than 5% of the original budget.

<sup>73</sup> The supplementary budget has not been included as it is considered not significant being less than 5% of the original budget.

3.396. The first External Quality Assurance review was conducted in June 2019 by the IIA, Malaysia, to evaluate the internal audit activity's conformance with IIA's IPPF/Standards. The overall opinion of the assessment was that the audit activities did not fully conform to the IIA Standards. The CCA is currently implementing an action plan to address the gaps and strives to fully comply with the IIA Standards and a repeat assessment is planned in 2024.<sup>74</sup> which is aligned to IPPF's QAIP framework, to advance and maintain a professional quality internal audit service. From the FY 2020/21, CCA implemented internal QAIP programs and at the time of assessment, 18 IAUs in both central and subnational budgetary bodies have periodic self-assessment based on the QAIP guidelines issued with the assistance and guidance from CCA. The QAIP is implemented mainly to assess the efficiency and effectiveness of internal audit activity and identifies the opportunities for improvement.

3.397. Based on the analysis and supporting evidence, the score for the dimension is B.

### **26.3 Implementation of internal audits and reporting**

3.398. **Performance level and evidence for scoring of the dimension:** The IAUs of twelve central agencies completed 96% of their plans for the last completed FY 2021/22 and submitted reports, as and when the engagements were completed, to the appropriate parties, including respective managements by IAUs and the CCA (see table below).

**Table 3.83: Completion of programmed internal audits during FY 2021/22**

Budgetary Body	No. of Audits / Reports Planned	No. of Audits completed, and Reports issued to appropriate parties
10 Ministries	62	58
2 Autonomous Agencies	9	7
<b>Total</b>	<b>71</b>	<b>65</b>
<i>% of Audits completed to planned</i>	92%	

3.399. Besides this, the IAUs also conducted audits included on an ad hoc basis or on the demand from the management.

3.400. Based on the analysis and supporting evidence, the score for the dimension is A.

### **26.4 Response to internal audits**

3.401. **Performance level and evidence for scoring of the dimension:** Five major budgetary bodies were selected as a sample for the assessment of response to internal audit.<sup>75</sup> Internal audit reports issued contains both management responses and their acceptance to initiate proper corrective actions. However, the managements did not in all cases provide response on the observations and recommendations. The data is shown below.

<sup>74</sup> <https://www.mof.gov.bt/wp-content/uploads/2020/11/QualityAssuranceImprovementProgramGuideline.pdf>.

<sup>75</sup> The MoF, Ministry of Health, Ministry of Education, Ministry of Agriculture and Forest, and Ministry of Works and Human Settlement accounted for 61% of the RGoB's total expenditure for FY 2021/22.

**Table 3.84: Management responses to internal audit reports**

Fiscal Year	No. of observations/ recommendations in audit reports	No. of observations / recommendations acted upon, or corrective actions initiated	% of (c) to (b)	No. of five sample agencies that provided partial response
(a)	(b)	(c)	(d=c/b)	(f)
2018/19	146	58	40%	4
2019/20	98	63	64%	4
2020/21	73	67	92%	4

3.402. Compared to FY 2018/19, management response to internal audit observations and recommendations has improved from 40% to 92% in FY 2020/21.<sup>76</sup>

3.403. Based on the analysis and supporting evidence, the score for the dimension is B.

3.404. **Performance change since the previous assessment:** PI-26.2 has improved from C in the 2016 PEFA assessment to B in 2022 as there has been a shift in the nature of internal audit conducted by the IAUs in central agencies (from financial compliance to focus on evaluation of internal control system and risk assessment both at audit planning and engagement stages). PI-26.4 has improved from C in 2016 to B in 2022 as management responses to the observations and recommendations have improved in recent years. The overall score for PI-26 has therefore improved from C+ in 2016 to B+ in 2022.

3.405. **Recent or ongoing reform activities:** The CCA is currently is in the process of carrying out independent validation of the periodic self-assessment reports and monitoring the progress of recommendations including made in the external quality assessment report so that IAUs are compliant with quality requirements before the next external Quality Assurance Review in 2024, and to assess the efficiency and effectiveness of internal audit activity and identify opportunities for improvement. The CCA aims to complete the periodic self-assessment in all IAUs within FY 2022/23. All IAUs henceforth will be focusing the nature of audit on evaluating the adequacy of internal control and risk management to ensure that the organization’s operations are efficient and effective, that the information is reliable, and that the organization complies with the relevant operating principles.

<sup>76</sup> Since a sample was considered for dimension PI-26.4, four out of five agencies in the sample provided full/partial response (in terms of para 26.3 of the PEFA Fieldguide), the score is assessed as B.

## PILLAR VI: Accounting and reporting

3.406. Pillar VI assesses the extent to which accurate and reliable records are maintained, and information is produced and disseminated at appropriate times to meet decision-making, management, and reporting needs.

### PI-27. Financial data integrity

3.407. This indicator assesses the extent to which treasury bank accounts, suspense accounts, and advance accounts are regularly reconcile and how the processes in place support the integrity of financial data.

Table 3.85: Minimum scoring requirements for PI-27

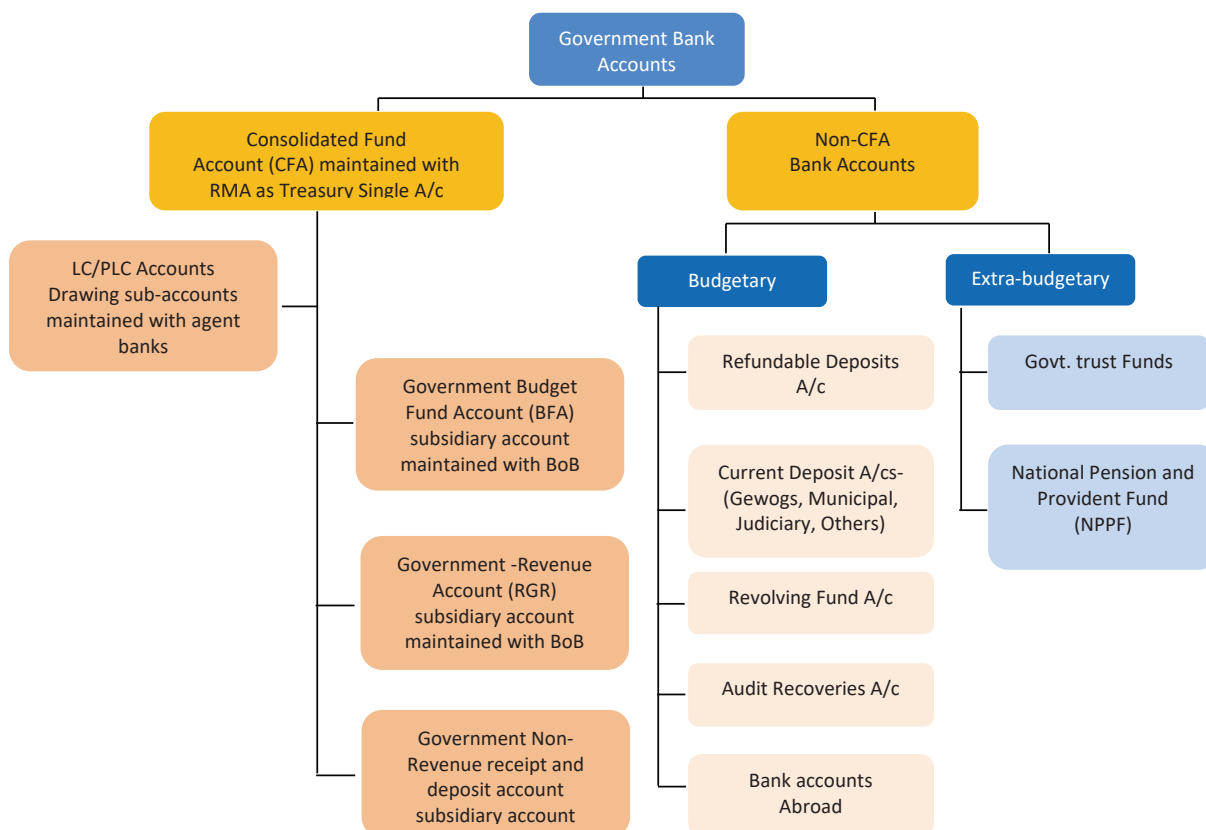
Score	Minimum requirements for scores
<b>27.1 Bank account reconciliation</b>	
A	Bank reconciliation for <b>all</b> active central government bank accounts takes place at least weekly at aggregate and detailed levels, usually within one week from the end of each week.
B	Bank reconciliation for <b>all</b> active central government bank accounts takes place at least monthly, usually within 4 weeks from the end of each month.
C	Bank reconciliation for <b>all</b> active central government bank accounts takes place at least quarterly, usually within 8 weeks from the end of each quarter.
D	Performance is less than required for a C score.
<b>27.2 Suspense accounts</b>	
A	Reconciliation of suspense accounts takes place at least monthly, within a month from the end of each month. Suspense accounts are cleared in a timely way, no later than the end of the fiscal year unless duly justified.
B	Reconciliation of suspense accounts takes place at least quarterly, within two months from the end of each quarter. Suspense accounts are cleared in a timely way, no later than the end of the fiscal year unless duly justified.
C	Reconciliation of suspense accounts takes place annually, within two months from the end of the year. Suspense accounts are cleared in a timely way, no later than the end of the fiscal year unless duly justified.
D	Performance is less than required for a C score.
<b>27.3 Advance accounts</b>	
A	Reconciliation of advance accounts takes place at least monthly, within a month from the end of each month. <b>All</b> advance accounts are cleared in a timely way.
B	Reconciliation of advance accounts takes place at least quarterly within two months from the end of each quarter. <b>Most</b> advance accounts are cleared in a timely way.
C	Reconciliation of advance accounts takes place annually, within two months from the end of the year. Advance accounts may frequently be cleared with delay.
D	Performance is less than required for a C score.
<b>27.4 Financial data integrity processes</b>	
A	Access and changes to records is restricted and recorded, and results in an audit trail. There is an operational body, unit or team in charge of verifying financial data integrity.
B	Access and changes to records is restricted and recorded, and results in an audit trail.
C	Access and changes to records is restricted and recorded.
D	Performance is less than required for a C score.

**Table 3.86: Summary of scores for PI-27 and performance table**

Indicator/Dimension	2016 Score	2022 Score	Brief justification for score
<b>PI-27 Financial data integrity</b>	<b>B</b>	<b>B+</b>	Scoring method M2
27.1 Bank account reconciliation	B	B	Bank reconciliation for all active central government bank accounts takes place at least monthly, usually within one week from the end of each month.
27.2 Suspense accounts	C	C	Reconciliation of suspense accounts takes place annually, within two months from the end of the year. Suspense accounts are cleared in a timely way, no later than the end of the fiscal year unless duly justified.
27.3 Advance accounts	B	A	Reconciliation of advance accounts takes place at least monthly, within a month from the end of each month. All advance accounts are cleared in a timely way.
27.4 Financial data integrity processes	B	A	Access and changes to records is restricted and recorded, and results in an audit trail. There is an operational body, unit or team in charge of verifying financial data integrity.

3.408. The classification of RGoB bank accounts is shown in the figure below.

**Figure 3.3: Classification of RGoB bank accounts**





## 27.1 Bank account reconciliation

3.409. **Performance level and evidence for scoring of the dimension:** The FAM (Clause 1.6.17.1) requires that the reconciliation of the principal and subsidiary bank accounts shall be undertaken by the DTA, while agencies collecting revenues shall follow instructions in the Revenue Manual 2019 for reconciliation of revenue sub-accounts (RGR accounts).

3.410. The constituents of the GCA and the regularity of reconciliation are:

- The Government Budget Fund Account (BFA) – operated by the DTA and reconciled *monthly*, which is completed within one week from the end of the month.
- The Royal Government Revenue (RGR) Account – operated by the DRC and reconciled *daily* in the RAMIS.
- The LC/PLC (memorandum) accounts – operated by the designated Accounting Units in all offices and reconciled by the respective office *monthly*,<sup>77</sup> within one week from month-end. The DTA collects the data on monthly withdrawals and updates it centrally. Moreover, there is also a provision to check the daily bank statement in e-PEMS.
- Non-revenue account maintained to facilitate the inter-agency transfers. The FAM (Clause 12.2.10) states that on receipt of the monthly accounts from agencies, the DTA shall check whether the amount shown under the head ‘Deposits: Non-Revenue’ is reconciled with the bank statements and Deposit Invoices received from the Agent Banks. Information on the regularity of reconciliation is not available. These accounts do not maintain large balances.<sup>78</sup>

3.411. The frequency and timeliness of reconciliation of government bank accounts outside the GCA are shown in the table below.

**Table 3.87: Frequency of reconciliation of government bank accounts outside the GCA**

Account	No. of Accounts	Receipts for FY 2021/22	Balance as of 30 June 2022	Periodicity of reconciliation	Timeline for reconciliation
Refundable Deposits Account	1	2,836.45	0.044	No	No
Bhutan Health Trust Fund (BHTF)	1	1,023.22	3,800.04	At least monthly	First week of next month
Bhutan Trust Fund for Environment Conservation (BTSEC)	1	105.51	4,281.68	At least monthly	First week of next month
Bhutan Information Communication and Media Authority (Current Account – Universal Service Fund)	1	87.46	122.65	At least monthly	First week of next month
Cultural Trust Fund	1	0.00	68.36	At least yearly	Within one month from end of period

<sup>77</sup> The DTA collects data on monthly withdrawals from the agent bank and it is centrally updated (previously this data was updated manually by the budgetary bodies).

<sup>78</sup> For instance, in FY 2021/22 the receipts in the accounts were to 2.6% of the overall receipts of the RGoB for the year, and were swept into the GCA at year-end. Hence, the non-revenue accounts account for 0% of the RGoB closing balance as on 30 June 2022.

Account	No. of Accounts	Receipts for FY 2021/22	Balance as of 30 June 2022	Periodicity of reconciliation	Timeline for reconciliation
Education Endowment Fund	1	0.00	0.11	At least yearly	Within one month from end of period
Crop and Livestock Conservation Endowment Fund	1	1.17	92.10	At least yearly	Within one month from end of period
Endowment Fund for Research	1	0.68	0.57	At least yearly	Within one month from end of period
Bhutan Economic Stabilization Fund	1	123.08	787.05	At least yearly	Within one month from end of period
Revolving fund (Current Account)	7	29,339.68	19.74	At least yearly	Within one month from end of period
Judiciary Current Deposit Account	24	0.00	0.00	<i>Account closed and fund transferred to BFA</i>	
Other Current Deposit Accounts	115	6,004.87	1,230.76	At least monthly	First week of next month
<b>Total</b>	-	<b>39,522.10</b>	<b>10,403.08</b>	-	-

Source: AFS 2021/22.

3.1. 91.9% of the closing balances for the RGoB bank accounts outside GCA were, as on 30 June 2022, reconciled at least on a monthly basis, while the remaining accounts were reconciled annually.

3.412. Based on the analysis and supporting evidence, the score for the dimension is B.

## **27.2 Suspense account**

3.413. **Performance level and evidence for scoring of the dimension:** The FAM defines suspense accounts as used for temporarily accommodating expenditure of or amounts payable by the RGoB until they can be transferred to the rightful activities or paid to creditors (Clause 9.1.1). Suspense accounts are used for the following transactions:

- a) Stock
- b) Purchases
- c) Public Work Advance (PWA)
- d) Deposit Works
- e) Other Deposits

3.414. Furthermore, permanent and temporary advances are allowed in accordance with the FAM (Chapter V). Such advances, if issued for RGoB works, are treated under suspense heads for the purpose of accounting. Permanent advances (operating like rolling imprest accounts) are issued to meet recurring expenses in field units and are settled against 'an account of

utilization’ provided at the time of replenishment. Temporary advances are provided for making disbursements against specific purposes for a specific time and are settled upon receipt of a utilization account immediately upon completion of the assignment, along with refund of any unutilized funds. It has to be refunded immediately if the specific purpose no longer needs to be fulfilled or if it transpires that the advance shall not be used during a period of 15 days. A complete liquidation of temporary advances is required to be done at fiscal year-end. Any unutilized advances – both permanent and temporary advances, except PWA to a third party (e.g., contractors) are carried forward as opening balance in the next year – are refunded to the RGoB at the end of the fiscal year.

3.415. The FAM also provides that the Head of Office using a suspense account is responsible for timely clearance of such balances, and each accounting unit must review balances and items under suspense to ensure timely action for clearance. Accounting for suspense accounts is done at the individual LC/ PLC account of each of the budgetary bodies in the e-PEMS by recording the party name, assignment details and budget line against each transaction. Adjustment is recorded against the respective budget line in the e-PEMS, thereby ensuring that details of unadjusted balances are available for each transaction.

3.416. At fiscal year-end, the unadjusted PWA (except PWA: Employees) accounts balances are carried forward to the next year as opening balances in the e-PEMS. The closing balance of LC/PLC accounts of budgetary bodies is arrived at after taking into account all actual expenditures plus advances and suspense balances. As accounting for suspense is done in the e-PEMS electronically, there is no need to reconcile the ledger and control accounts.

3.417. Accounting and monitoring of suspense accounts are done on the individual LC/PLC accounts of budgetary bodies. A consolidated statement showing agency-wise aggregate additions and adjustments within the year in the suspense account is included in the RGoB’s AFS. Information on opening and closing balances of suspense accounts is not disclosed.

3.418. The periodicity of clearance of suspense accounts depends on the terms and conditions of each relevant suspense category. At the close of each fiscal year (within two weeks from the close of fiscal year), every accounting unit performs an overall review and reconciliation of suspense accounts to ensure that the balances reflected against assignments and parties are correct.

3.419. During FY 2021/22, transactions were recorded in 618 suspense accounts for which a closing balance was reported in 570 accounts amounting to Nu. 6,858 million. Also, 18 accounts (with a closing balance of Nu. 20 million) were noted where there was no movement during the year (i.e., reporting the same opening and closing balance for FY 2021/22). Movements in suspense accounts for the last two years are shown below:

**Table 3.88: Movements in suspense accounts for FY 2020/21 and FY 2021/22 (Nu. Million)**

Fiscal Year	Opening balance	Additions during the year	Adjustments during the year	Closing balance
2020/21	6,832.09	17,692.75	17,437.00	7,087.84
2021/22	7,087.84	22,567.76	22,797.74	6,857.86

3.420. The RAA in its June 2022 report on the performance audit of e-PEMS highlights instances of suspense accounts not migrated from PEMS to e-PEMS. The RGoB has made attempts towards ensuring all such balances are appropriately reflected in e-PEMS. Based on a Management Action Plan submitted by the DTA to the RAA, the former quantified such un-migrated suspense balances at Nu. 48.01 million, which is less than 1% of the overall suspense balances; thus, not considered material for the purpose of scoring of this dimension. The RGoB is committed to resolve such discrepancies by 30 June 2023.

3.421. Based on the analysis and supporting evidence, the score for the dimension is C.

### **27.3 Advance account**

3.422. **Performance level and evidence for scoring of the dimension:** Advances provided to RGoB employees on personal accounts like travel advance and leave salary are accounted for under personal advance accounts. All other advances are recorded under the head ‘Suspense Accounts’ (and thus covered under PI-27.2 above). The regulations and accounting of governing advances are provided in the FAM (Clause 8.1.6):

- (i) Personal advances are processed on the basis of a sanction order documenting the purpose and recovery/adjustment procedure of the advance. The sanction order is issued by a competent authority in accordance with the Delegation of Powers.
- (ii) Personal advances of any kind are not sanctioned or paid in case a previous personal advance remains unsettled.
- (iii) Balance of advances at the end of a fiscal year is carried forward to the next year.

3.423. The accounting units of budgetary bodies that provide advances to their employees are responsible for ensuring reconciliation and timely liquidation (payroll adjustment). Reconciliation of advances is done on monthly, at the time of monthly pay finalization.

3.424. Monitoring of advance accounts is done at the individual LC/PLC of each budgetary body. A consolidated statement showing agency-wise aggregate additions and adjustments within the fiscal year in the advance account is included in the RGoB’s AFS. Information on the opening and closing balances of advance accounts is not disclosed.

3.425. Settlement of advances beyond the prescribed time limit attracts penalty interest of 24% per annum. Compliance is reviewed by the RAA during their annual financial audits.

3.426. During FY 2021/22, advance transactions occurred in 432 operating units, of which a closing balance was reported in 29 accounts. Details of the movement in advance accounts for the last two years is provided in the table below.

**Table 3.89: Movements in advance accounts for FY 2020/21 and FY 2021/22 (Nu. Million)**

Fiscal Year	Opening balance	Additions during the year	Adjustments during the year	Closing balance
2020/21	1.86	192.83	192.98	1.71
2021/22	1.71	260.23	260.33	1.61

3.427. Similar to the observation on suspense accounts migration, the RAA notes similar issues in the migration of advance accounts from PEMS to e-PEMS. The RGoB, through its Management Action Plan, has committed to resolve the un-migrated advance balances of Nu. 0.15 million by 30 June 2023. All advances are cleared in a timely manner.

3.428. Based on the analysis and supporting evidence, the score for the dimension is A.

#### **27.4 Financial data integrity processes**

3.429. **Performance level and evidence for scoring of the dimension:** The user access rights to e-PEMS are centrally managed by the DTA, which has a dedicated section in charge of e-PEMS user management.

3.430. User access rights are provided based on the user role like System Administrator, Department Head, Division Chief, Agency Administrator, and Agency User. Users have a unique user identity and passwords are encrypted. Further agency users are provided signatory authority (like voucher preparation, voucher verification, voucher approval, and payment instruction) based on their responsibilities. The signatory authorities are managed by an agency administrator who is usually a Finance Officer. Therefore, access to records and information in e-PEMS is based on an individual's roles and responsibilities as defined in the FAM, and there is no unlimited or unauthorized access to users. Access level can be controlled in the system based on role management. Since all transactions in the systems are tagged to the user IDs, there is an audit trail in the system for access and changes made.

3.431. The RAA is given full read-only access to the system and its records while carrying out audits in the budgetary bodies. Reports on all financial transactions are readily available from the system for analysis and review purposes. Access and changes to records are restricted by access level controls. In response to the RAA's performance audit on e-PEMS conducted in FY 2021/22, the DTA has taken steps to further strengthen the change management process by issuing adequate guidelines and maintaining adequate daily logs.

3.432. The e-PEMS Client Support Section under the Payment Management Services Division (PMSD) in the DTA is mandated for user management in e-PEMS. It has the following role and responsibilities:

- Attend to clients for system related issues and maintain proper records.
- Update the vendor/employee details as per registration forms submitted by budgetary bodies.
- Review, analyze and solve problems related to system bugs in consultation with Information and Communications Technology (ICT) personnel, and intimate clients accordingly.
- Analyze problem trends, and ensure that frequently repeating problems are resolved permanently.
- Problems related to transaction and other simple logics shall be solved instantly. Client issues/problems that are unable to be solved shall be discussed with the Development and Training Section (DTS).

- Compile lists of the problems that have been solved, and the problems that have been taken up with the DTS.
- Present to the PMSD and the Management Committee on system issues, challenges, and other relevant issues, as and when required.
- Assist the DTS in the enhancement of the system by providing necessary information and documents.
- Coordinate with DTS to develop training modules and materials.
- Any other tasks related to the system and as assigned by the Division Chief from time to time.

3.433. Based on the analysis and supporting evidence, the score for the dimension is A.

3.434. **Performance change since the previous assessment:** The score for PI-27.3 improved from B in 2016 to A in 2022, which is a result of all advance accounts now being cleared in a timely manner. The score for PI-27.4 improved from B in 2016 to A in 2022 as a result of the DTA establishing a dedicated team to verify the integrity of financial data.

3.435. **Recent or ongoing reform activities:** Daily reconciliation of the BFA has been undertaken since 1 July 2022. Also, the DTA is streamlining the operation of the CD accounts with most CD accounts closed and the business process changed.

### **PI-28. In-year budget reports**

3.436. This indicator assesses the comprehensiveness, accuracy and timeliness of information on budget execution. In-year budget reports must be consistent with budget coverage and classifications to allow monitoring of budget performance and, if necessary, timely use of corrective measures.

**Table 3.90: Minimum scoring requirements for PI-28**

Score	Minimum requirements for scores
<b>PI-28.1 Coverage and comparability of reports</b>	
A	Coverage and classification of data allows direct comparison to the original budget. Information includes all items of budget estimates. Expenditures made from transfers to de-concentrated units within central government are included in the reports.
B	Coverage and classification of data allows direct comparison to the original budget with partial aggregation. Expenditures made from transfers to de-concentrated units within central government are included in the reports.
C	Coverage and classification of data allows direct comparison to the original budget for the main administrative headings.
D	Performance is less than required for a C score.
<b>PI-28.2 Timing of in-year budget reports</b>	
A	Budget execution reports are prepared monthly, and issued within two weeks from the end of each month.
B	Budget execution reports are prepared quarterly, and issued within four weeks from the end of each quarter.

C	Budget execution reports are prepared quarterly (possibly excluding first quarter), and issued within 8 weeks from the end of each quarter.
D	Performance is less than required for a C score.
<b>PI-28.3 Accuracy of in-year budget reports</b>	
A	There are no material concerns regarding data accuracy. An analysis of budget execution is provided by whatever budget classifications are in use. Information on expenditure is covered at both commitment and payment stages.
B	There may be concerns regarding data accuracy. Data issues are highlighted in the report and the data is consistent and useful for analysis of budget execution. An analysis of the budget execution is provided on at least a half-yearly basis. Expenditure is captured at least at payment stage.
C	There may be concerns regarding data accuracy. Data is useful for analysis of budget execution. Expenditure is captured at least at payment stage.
D	Performance is less than required for a C score.

**Table 3.91: Summary of scores for PI-28 and performance table**

Indicator/Dimension	2016 Score	2022 Score	Brief justification for score
<b>PI-28 In-year budget report</b>	<b>C+</b>	<b>C+</b>	Scoring method M1
28.1 Coverage and comparability of reports	B	A	The quarterly budget performance reports cover revenues, grants, loans and expenditures with comparisons between the budget and actual, including for transfers to local governments.
28.2 Timing of in-year budget reports	C	C	The time for completing and issuing the quarterly budget performance reports varied during FY 2021/22 from about three weeks to almost five week.
28.3 Accuracy of in-year budget reports	B	B	The data reported are extracted from the systems (MYRB and e-PEMS) which function on real time basis. The data is reliable, useful for analysis which is done on a quarterly basis. Expenditure is captured at least at payment stage.

### **28.1 Coverage and comparability of reports**

3.437. **Performance level and evidence for scoring of the dimension:** The quarterly budget performance reports highlight the performance of domestic revenue collected, grant realized, loan contracted to finance, and the expenditure (both current and capital) reported till end-of-quarter. In addition, the data coverage and classification allows for direct comparison of actual performance against the budget (original and/or revised) at the same disaggregation levels, and also against the performance in the previous fiscal year during the same quarter. Expenditures made by LGs from annual transfers received from the RGoB are included in the report. Through the reports, the DPBP seeks to inform the government, citizens and other relevant stakeholders about the performance of the budget to enhance transparency in accordance with global practices.

3.438. Based on the analysis and supporting evidence, the score for the dimension is A.



## 28.2 Timing of in-year budget reports

3.439. **Performance level and evidence for scoring of the dimension:** The quarterly budget performance reports for FY 2021/22 were prepared and issued as shown in the table below.

**Table 3.92: Timing of in-year budget reports for the last completed fiscal year**

Period covered by the report	Actual date of issuance
1 July-30 September 2021	4 November 2021 (issued after four weeks and five days)
1 October-31 December 2021	21 January 2022 (issued after two weeks and six days)
1 January-31 March 2022	25 April 2022 (issued after three weeks and three days)
1 April-30 June 2022	26 July 2022 (issued after three weeks and four days)

3.440. As the table shows, the time for completing and issuing the quarterly budget performance reports varied during FY 2021/22 from about three weeks to almost five week.

3.441. The quarterly budget performance reports include the following information:

- 1) The changes in the resources and expenditure from the previous quarters
  - 1.1 Current and capital expenditure
- 2) Summary of actual resource, release and expenditure
  - 2.1 Realized resource, release and expenditure
  - 2.2 Fiscal summary for the quarters of the last two FYs
  - 2.3 Resources vs. revenue performance
- 3) Expenditure developments:
  - 3.1 Release and expenditure by function
  - 3.2 Expenditure summary by object classification
  - 3.3 Expenditure summary by sector
- 4) Transfers: Annual grants, subsidies and equities
- 5) General Reserve status
- 6) Financing:
  - 6.1 External Borrowings
  - 6.2 Domestic Borrowings

3.442. The reports are thoroughly discussed at the departmental level before publication.

3.443. Based on the analysis and supporting evidence, the score for the dimension is C.

## 28.3 Accuracy of in-year budget reports

3.444. **Performance level and evidence for scoring of the dimension:** The data reported in the quarterly budget performance reports, at time of assessment, is captured at the payment stage (commitment stage is not included) based on real-time information extracted from the

web-based online systems (MYRB and e-PEMS) used by the budgetary bodies for budgeting and accounting transactions on a daily basis. The quarterly report provides analysis of budget execution. Hence the data reported is real-time and reliable for decision-making. The reports aim to inform the Government and citizens on the performance of budget and expenditure and there have been no issues reported on material concerns about inaccuracy of the data. The reports help the budgetary bodies to keep informed on the status of their budget and expenditure performance and making them to think of the necessary measures to fast-track the activity implementations.

3.445. Based on the analysis and supporting evidence, the score for the dimension is B.

3.446. **Performance change since the previous assessment:** PI-28.1 has improved from B in 2016 to A in 2022 due to extended coverage and classifications of data that allows direct comparison to the original budget and other budget estimates, which is also made available to all the budgetary bodies.

3.447. **Recent or ongoing reform activities:** While the DPBP started preparing a quarterly budget performance report from FY 2015/16 for internal use, the reports have been published started from FY 2020/21. In order to enhance the efficiency and timely execution of works for timely decision-making, the DPBP plans to share the reports (progress report) as a tool to be used by heads of budgetary bodies for work status and timely intervention.

### **PI-29. Annual financial reports**

3.448. This indicator assesses the extent to which annual financial statements are complete, timely, and consistent with generally accepted accounting principles and standards. This is crucial for accountability and transparency in the PFM system.

**Table 3.93: Minimum scoring requirements for PI-29**

Score	Minimum requirements for scores
<b>PI-29.1 Completeness of annual financial reports</b>	
A	Financial reports for budgetary central government are prepared annually and are comparable with the approved budget. They contain full information on revenue, expenditure, financial and tangible assets, liabilities, guarantees, and long-term obligations, and are supported by a reconciled cash flow statement.
B	Financial reports for budgetary central government are prepared annually and are comparable with the approved budget. They contain information on at least revenue, expenditure, financial assets, financial liabilities, guarantees, and long-term obligations.
C	Financial reports for budgetary central government are prepared annually, and are comparable with the approved budget. They include information on revenue, expenditure, and cash balances.
D	Performance is less than required for a C score.
<b>PI-29.2 Submission of reports for external audit</b>	
A	Financial reports for budgetary central government are submitted for external audit within 3 months of the end of the fiscal year.
B	Financial reports for budgetary central government are submitted for external audit within 6 months of the end of the fiscal year.

C	Financial reports for budgetary central government are submitted for external audit within 9 months of the end of the fiscal year.
D	Performance is less than required for a C score.
<b>PI-29.3 Accounting standards</b>	
A	Accounting standards applied to <b>all</b> financial reports are consistent with international standards. <b>Most</b> international standards have been incorporated into the national standards. Variations between international and national standards are disclosed and any gaps are explained. The standards used in preparing annual financial reports are disclosed in notes to the reports.
B	Accounting standards applied to <b>all</b> financial reports are consistent with the country's legal framework. The <b>majority</b> of international standards have been incorporated into the national standards. Variations between international and national standards are disclosed and any gaps are explained. The standards used in preparing annual financial reports are disclosed.
C	Accounting standards applied to <b>all</b> financial reports are consistent with the country's legal framework and ensure consistency of reporting over time. The standards used in preparing annual financial reports are disclosed.
D	Performance is less than required for a C score.

**Table 3.94: Summary of scores for PI-29 and performance table**

Indicator/Dimension	2016 Score	2022 Score	Brief justification for score
<b>PI-29 Annual financial reports</b>	<b>C+</b>	<b>C+</b>	Scoring method M1
29.1 Completeness of annual financial reports	C	C	The AFS cover all budgetary bodies and are prepared annually. They include a comparison with the budget and information on revenue, expenditure and cash balances, but not financial assets and liabilities.
29.2 Submission of reports for external audit	B	A	The AFS are submitted for external audit within three months of the end of the fiscal year.
29.3 Accounting standards	C	C	The accounting standards applied to the AFS are based on the legal framework and are disclosed in the AFS. The standards have been applied consistently over time.

3.449. As per the PFA 2007, Section 67, under 'Reporting requirement' the Finance Minister shall produce the AFS as prescribed in the FRR 2016. The AFS must include a statement of responsibility for the reliability and completeness of the financial statements signed by the Finance Minister and the designated executive officer. The AFS must include the following:

- (a) statement of the sources and application of funds showing the revenues, expenditures and financing for the financial year;
- (b) statement of the amounts outstanding at the end of the financial year in respect of public debt;
- (c) statement of amounts guaranteed by the Government;
- (d) statement of the amount outstanding at the end of the financial year in respect of loans provided by the Government; and,

(e) a summary statement of arrears of revenue for each revenue head at the end of the financial year.

### **29.1 Completeness of annual financial reports**

3.450. **Performance level and evidence for scoring of the dimension:** As per the provisions in the PFA and the FRR, the AFS of the RGoB are prepared and published each year. The statements cover all government budgetary bodies.

3.451. Revenue accounting is done through the RAMIS maintained by the DRC. The CS-DRMS is used to account and maintaining record for both Grant and Loans. The DCDMD under the DMDF is responsible for all government debt management and some multilateral grants. The GNHC uses the system to manage and record bilateral and some multilateral grants.

3.452. Expenditure details are obtained from the e-PEMS based on the accounting records maintained at agency level. The Budget Fund Account details are obtained from the records maintained by the DTA's TMD.

3.453. The preparation of the AFS is a manual process of consolidating information from different agencies through various systems and sources – RAMIS (DRC); MYRB (DPBP); CS-DRMS (DMDF's DCDMD); e-PEMS (DTA); BoBL; DMDF's ICGD; NSB.

3.454. The two main statements in the AFS delineate actual expenditure with approved and revised budgets as well as consolidated receipts and payments of the RGoB. The two statements are supported by additional information detailed in various tables and figures, including on revenues, grants, loans and expenditures. They also include statements of the Government Equity Portfolio in PCs, and financial institutions, government guarantees, and government outstanding debt. However, complete information on tangible and financial assets and liabilities (such as balances of advances and suspense accounts) is not provided in the AFS and is not supported by a cash flow statement.

3.455. The table below summarizes the information included in the AFS prepared for the last three fiscal years.

**Table 3.95: Financial reports of Budgetary Central Government (BCG)**

Financial report	Date annual report submitted for external audit	Content of annual financial report (Y/N):			Reconciled cash flow statement (Y/N)
		Expenditures and revenues by economic classification	Financial and non-financial assets and liabilities	Guarantees and long-term obligations	
AFS 2019/20	22 October 2020	Yes	Partial	Yes	Yes
AFS 2020/21	25 August 2021	Yes	Partial	Yes	Yes
AFS 2021/22	28 September 2022	Yes	Partial	Yes	Yes

Source: MoF.

3.456. The AFS cover all budgetary bodies and are prepared annually. They include a comparison with the budget and information on revenues, expenditures and cash balances

as well as guarantees and long-term obligations, but only partial information on financial and non-financial assets and liabilities.

3.457. Based on the analysis and supporting evidence, the score for the dimension is C.

### 29.2 Submission of reports for external audit

3.458. **Performance level and evidence for scoring of the dimension:** As per Section 69 of the PFA 2007 and Clause 12.1.1 of the FRR 2016, the DTA is entrusted with responsibility to prepare an AFS of the budgetary operations for each fiscal year within six months after the close of the fiscal year.

3.459. The FAM of the FRR 2016 requires that the AFS be forwarded to the RAA for certification within six months after fiscal year-end. Accordingly, the AFS are prepared and forwarded to the RAA for certification annually within six months after fiscal year-end.

3.460. However, after the implementation of e-PEMS, the overall reconciliation and preparation of the AFS period has improved from six months to less than four months (in 2020) and further to less than two months (in 2021). The AFS 2021/22 was submitted to the RAA on 28 September 2022 (i.e., within three months from the fiscal year-end).

3.461. Based on the analysis and supporting evidence, the score for the dimension is A.

### 29.3 Accounting standards

3.462. **Performance level and evidence for scoring of the dimension:** Clause 1.3.3 of the FAM specifies that the government accounts shall be maintained on a cash basis and that the actual total receipts and expenditures of the RGoB during a fiscal year shall be the basis for preparation of the AFS. Chapter XII of the FAM further specifies the form and content of the AFS. Accordingly, the AFS have been presented in a consistent format over the last three years.

3.463. The Statement of Responsibility, signed by the Finance Minister and the Director of the DTA, states that the AFS have been prepared in accordance with the provisions of the PFA 2007 and the FRR 2016.

3.464. Based on the analysis and supporting evidence, the score for the dimension is C.

3.465. **Performance change since the previous assessment:** The score of PI-29.2 has improved from B in 2016 to A in 2022. This is a result of the e-PEMS having eliminated cheque-based payments and implementation of real-time online payments that has expedited accounts reconciliation, and therefore the preparation of AFS.

3.466. **Recent or ongoing reform activities:** Given the reduction in turn-around time for preparation of AFS in the recent years, the RGoB is in the process of revising the PFA and FRR

to reduce the time for submission of AFS for audit to the RAA within three months of the close of the fiscal year.

3.467. The Accounting and Auditing Standard Board of Bhutan (AASBB) on 30 June 2022 notified that the implementation of the Cash Basis IPSAS was approved during a meeting held on 31 May 2022. As per the notification,<sup>79</sup> the Cash Basis IPSAS came into effect on 1 July 2022 for all budgetary bodies.<sup>80</sup> Starting FY 2022/23, the AFS will therefore be prepared and reported as per Cash Basis IPSAS standards.

3.468. Preliminary and foundation work on upgrading the CoA, from the basis of the GFSM 1986 to the GFSM 2014, is currently undertaken. The CoA based on GFSM 2014 will provide a comprehensive framework for a phased implementation of accrual accounting, while also supporting needed improvements in the compilation of cash based fiscal statistics.

## PILLAR VII: External scrutiny and audit

3.469. Pillar VI assesses whether public finances are independently reviewed and there is external follow-up on the implementation of recommendations for improvement by the executive.

### PI-30. External audit

3.470. This indicator examines the characteristics of external audit.

**Table 3.96: Minimum scoring requirements for PI-30**

Score	Minimum requirements for scores
<b>PI-30.1 Audit coverage and standards</b>	
A	Financial reports including revenue, expenditure, assets, and liabilities of <b>all</b> central government entities have been audited using ISSAIs or consistent national auditing standards during the last three completed fiscal years. The audits have highlighted any relevant material issues and systemic and control risks.
B	Financial reports of central government entities representing <b>most</b> total expenditures and revenues have been audited using ISSAIs or national auditing standards during the last three completed fiscal years. The audits have highlighted any relevant material issues and systemic and control risks.
C	Financial reports of central government entities representing the <b>majority</b> of total expenditures and revenues have been audited, using ISSAIs or national auditing standards during the last three completed fiscal years. The audits have highlighted any relevant significant issues.
D	Performance is less than required for a C score.
<b>PI-30.2 Submission of audit reports to the legislature</b>	
A	Audit reports were submitted to the legislature* within three months from receipt of the financial reports by the Supreme Audit Institution for the last three completed fiscal years.
B	Audit reports were submitted to the legislature within six months from receipt of the financial reports by the Supreme Audit Institution for the last three completed fiscal years.
C	Audit reports were submitted to the legislature within nine months from receipt of the financial reports by the Supreme Audit Institution for the last three completed fiscal years.

<sup>79</sup> <https://www.mof.gov.bt/wp-content/uploads/2022/07/Notification0407202201.pdf>.

<sup>80</sup> The AASBB has also implemented Bhutanese Accounting Standards (BAS) 2020 for the private sector.

D	Performance is less than required for a C score.
<b>PI-30.3 External audit follow-up</b>	
A	There is clear evidence of effective and timely follow-up by the executive or the audited entity on audits for which follow-up was expected, during the last three completed fiscal years.
B	A formal, comprehensive, and timely response was made by the executive or the audited entity on audits for which follow-up was expected, during the last three completed fiscal years.
C	A formal response was made by the executive or the audited entity on audits for which follow up was expected, during the last three completed fiscal years.
D	Performance is less than required for a C score.
<b>PI-30.4 Supreme Audit Institution independence</b>	
A	The SAI operates independently from the executive with respect to procedures for appointment and removal of the Head of the SAI, the planning of audit engagements, arrangements for publicizing reports, and the approval and execution of the SAI's budget. This independence is assured by law. The SAI has unrestricted and timely access to records, documentation and information.
B	The SAI operates independently from the executive with respect to procedures for appointment and removal of the Head of the SAI, the planning of audit engagements, and the approval and execution of the SAI's budget. The SAI has unrestricted and timely access to records, documentation and information for <i>most</i> audited entities.
C	The SAI operates independently from the executive with respect to the procedures for appointment and removal of the Head of the SAI as well as the execution of the SAI's budget. The SAI has unrestricted and timely access to the <i>majority</i> of the requested records, documentation and information.
D	Performance is less than required for a C score.

**Table 3.97: Summary of scores for PI-30 and performance table**

Indicator/Dimension	2016 Score	2022 Score	Brief justification for score
<b>PI-30 External audit</b>	<b>B+</b>	<b>C+</b>	Scoring method M1
30.1 Audit coverage and standards	B	A	Financial reports including revenue, expenditure, assets and liabilities of all central government entities have been audited using the International Standards of Supreme Audit Institutions (ISSAIs) during the last three completed fiscal years. The audits have highlighted relevant material issues and systemic and control risks.
30.2 Submission of audit reports to the legislature	B	C	The AARs were submitted by the RAA to Parliament 7.8 months, 2.5 months and 2.5 months, respectively, after receipt from the MoF of the AFS for the last three fiscal years.
30.3 External audit follow-up	A	A	There is clear evidence of effective and timely follow-up by the executive on audit findings and recommendations during the last three fiscal years.
30.4 Supreme Audit Institution independence	B	C	The RAA operates independently from the executive, ensured through the Constitution and the Audit Act, with respect to (i) procedures for appointment and removal of the Auditor General, (ii) planning of audit engagements, (iii) arrangements for



			publicizing reports, and (iv) execution of the RAA’s budget. The RAA also has unrestricted and timely access to records, documentation and information. However, for budget approval the RAA follows the RGoB budgeting procedure and requests its budget through the MoF.
--	--	--	--

3.471. External audit of the RGoB and LGs is undertaken by the RAA, which is established as a constitutional body. Article 25 (1) of the Constitution 2008 stipulates that “*There shall be a Royal Audit Authority to audit and report on the economy, efficiency, and effectiveness in the use of public resources*”.

### **30.1 Audit coverage and standards**

3.472. **Performance level and evidence for scoring of the dimension:** Article 25 (1) of the Constitution 2008 provides that “*There shall be a Royal Audit Authority [RAA] to audit and report on the economy, efficiency and effectiveness in the use of public resources*”. Further Article 25 (4) states that “*The Royal Audit Authority shall, without fear, favour, or prejudice, audit the accounts of all departments and offices of the Government including all offices in the Legislature and the Judiciary, all public authorities and bodies administering public funds, the police and the defence forces as well as the revenues, public and other monies received and the advances and reserves of Bhutan*”.

3.473. Similarly, Section 90 of the Audit Act 2018 provides that the RAA shall audit all Central Government agencies, including both budgetary and non-budgetary bodies as well as foreign assisted projects, armed forces, registered political parties, monk bodies, government incorporated companies, state owned enterprises, non-governmental organizations, civil society organizations, and religious organizations. Section 41 of the Public Finance (Amendment) Act 2012 stipulates that “The Royal Audit Authority shall audit the Government’s Annual Financial Statements”.

3.474. In accordance with Section 55 of the Audit Act 2018, the RAA has adopted the ISSAIs as its authoritative auditing standards. The RAA conducts three types of audits viz. financial audit, performance audit, and compliance audit. All audits are conducted applying the relevant ISSAIs, cover expenditure, revenue, assets and liabilities and the audits highlight relevant material issues and systemic and control risks.

3.475. In accordance with the Audit Act 2018 (Sections 111 and 112), the RAA audits the RGoB’s AFS and presents the results in the AARs, which are submitted to the Druk Gyalpo, Prime Minister and Parliament. The AFS, and thus the AARs, cover the revenues and expenditures of all government budgetary bodies. The AARs are issued in two volumes. Volume I contains the audited AFS; a summary of the audit findings, including material issues as well as systemic and control risks; information about performance audits undertaken; a conclusion; and, recommendations. Volume II contains the status of total irregularities of audit reports issued during the audit period.

3.476. Based on the analysis and supporting evidence, the score for the dimension is A.

### 30.2 Submission of audit reports to the legislature

3.477. **Performance level and evidence for scoring of the dimension:** Article 25 (5) of the Constitution 2008 stipulates “*The Auditor General shall submit an Annual Audit Report to the Druk Gyalpo, the Prime Minister and Parliament*”.

3.478. Further, Section 111 of the Audit Act 2018 stipulates “*The Auditor General shall submit the Annual Audit Report to the Druk Gyalpo, the Prime Minister and the Parliament during the fourth quarter of the financial year on the audit carried out for the financial year ended*”. For FY 2018/19 and FY 2019/20, the RAA submitted the AARs to Parliament, as stipulated by the Act, during the fourth quarter of the fiscal year. The AARs cover audit reports issued up to 31 December each year. However, beginning FY 2020/21, the RAA changed the reporting timeline from calendar year to fiscal year in alignment with the reporting of the RGoB’s AFS and, also, to facilitate better and more timely decision-making by Parliament. Therefore, the AAR for FY 2020/2021 covers reports issued between 1 January and 30 June 2021 since the audit reports issued from July to December 2020 were reported under the AAR 2020. Henceforth, the AARs shall be submitted to Parliament on 11 November every year.

3.479. The dates of receipt of the AFS by the RAA from the MoF and of submission of the AAR by the RAA to Parliament are shown below for the past three fiscal years.

**Table 3.98: Timing of audit reports submission to the legislature**

Fiscal Year	Dates of receipt of the AFS by the RAA from the MoF	Dates of submission of the AAR by the RAA to Parliament	No. of Months
2019/20	22 October 2020	18 June 2021	7.8
2020/21	25 August 2021	11 November 2021	2.5
2021/22	28 September 2022	6 December 2022	2.5

3.480. The number of months taken by the RAA to prepare and submit the AAR to Parliament was thus above six months for one of the past three fiscal years.

3.481. Based on the analysis and supporting evidence, the score for the dimension is C.

3.482. However, it is to be highlighted that the RAA under a new initiative in recent years has made a drastic improvement in the timeline for submission of the AAR to Parliament (*within 2½ months from the date of receipt of the AFS*) as compared to 10-11 months in the past in some cases.

### 30.3 External audit follow-up

3.483. Evidence of effective follow-up of the audit findings includes the issuance by the RGoB of a formal written response to the audit findings, indicating how these will be or already have been addressed. The terms ‘formal’ and ‘comprehensive’ imply a written response that systematically addresses the audit findings and recommendations; it does not imply that recommendations have necessarily been implemented. An assessment of timeliness depends

on the nature of the recommendation, but suggests that, at a minimum, the issue should not be repeated in the audit report for the following year.

3.484. **Performance level and evidence for scoring of the dimension:** Section 118 of the Audit Act 2018 requires all audited entities to respond to the RAA within specific time frames.<sup>81</sup>Section 119 stipulates that *“The concerned audited agencies and other concerned authority shall be responsible to take timely follow up actions on audit reports issued under this Act”*. Section 120 outlines the need for restitution of misspent, misused or imprudent misapplication of public funds to the government. Section 113 (5) stipulates that *“The Annual Audit Report shall include cases where the Authority did not receive responses to preliminary audit observations and Action Taken Report on the final audit report, and significant cases where the Authority did not receive acceptable response or cooperation”*.

3.485. Article 122 of the Audit Act 2018 provides for the RAA to issue reminders on reports not being acted upon and, if there are further non-compliance and non-cooperation, the respective entities shall be required to submit explanation. Further, if any serious cases remain unresolved for 12 months after deliberation in Parliament, these should be referred to the Court of Law by the agencies concerned. Failure to refer such cases to the Court of Law shall result in denial of Audit Clearance Certificate to the Head of agencies concerned.

Section 55 (21) of the Audit Act 2018 provides that the RAA may *“Levy penalty of 24 percent per annum on financial dues to the Government or to the public entities resulting from the audit report for the amount not deposited within the prescribed time frame”*. Further, Parliament has empowered the RAA to impose 24% penal interest on outstanding audit issues with monetary value. The table below shows the value of audit observations, recoveries made and pending audit issues for FY 2019, FY 2020 and FY 2020/21.

**Table 3.99: Timing of audit reports submission to the legislature**

Particulars	As per AAR 2019 (Nu. in Millions)	As per AAR 2020 (Nu. in millions)	As per AAR 2020/21 (Nu. in Millions)
Value of audit observation reported by RAA	1,415.153	2,051.233	647.877
Irregularities resolved as on 31 March 2022	294.964	432.746	199.388
Pending irregularities as on 31 March 2022	1,120.189	1,618.487	448.489

3.486. There is reduction in terms of the value of audit observations reported and the irregularities resolved vis-à-vis the pending irregularities as of 31 March 2022 (for reasons explained under PI-30.2 above).

3.487. The RAA’s follow-up on audit report findings is handled by the Follow-up and Clearance Division, headed by an Assistant Auditor General, which is responsible for timely follow-up on unresolved and pending audit issues in accordance with the legal provisions. Follow-up is guided by its ‘Guidelines on Follow-Up of Audit Report’ issued in 2019. The Guidelines are based upon Principle 3 of ISSAI 20 and ISSAI 100 where supreme audit

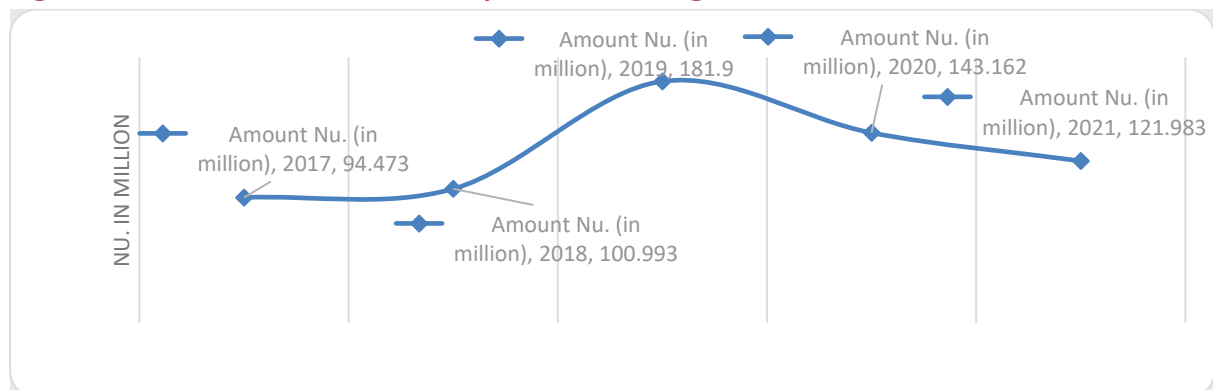
<sup>81</sup> (i) Submission of annual financial statement by the entities within two weeks of request; (ii) Response to initial audit observations within one month of the issue of audit observation; (iii) Response to agency specific reports within three months; (iv) Response to draft AAR within one month of the issue of the draft by the RAA; and, (v) Response to draft performance audit reports within one month of the issue of the draft report or as per the Performance Audit Guidelines.

institutions (SAs) have a role in monitoring actions taken by the responsible party in response to those matters raised in their audit reports. The RAA’s follow-up on audit reports takes place in a systematic manner. The audited entities are provided with three/one month(s) timeframe from the date an audit report is issued to take action on the audit issues and report to the RAA with an Action Taken Report (ATR). The ATRs are reviewed by the RAA and, if found satisfactory, the issues are settled. Otherwise the observations are pursued until they are brought to a satisfactory and logical conclusion. The follow-up takes place on a continuous basis throughout the year. The AAR incorporates those audit observations that have not been settled in the AAR.

3.488. The RAA had developed the Audit Information Management System (AIMS) in the 1990s to capture audit information from its reports. The system is still in use as of today. Every audit report is issued with a unique identification number called the Audit Information Number (AIN), which is generated through the AIMS. A copy of every report issued is shared with the Follow-up and Clearance Division, which feeds the data from audit reports into the AIMS. The AIMS can generate reports on pending audit issues against every accountable official. Based on the information captured by the AIMS, the Follow-up and Clearance Division carries out periodic follow-up on unresolved and pending audit issues.

3.489. The RAA maintains a bank account, the Audit Recoveries Account (ARA), with the BoBL, where all recoveries made through audits are deposited. The ARA is maintained by the RAA’s Finance Section, and is reconciled on a monthly basis. The amounts of audit recoveries made by the RAA in the last five years are shown below.

**Figure 3.4: Audit recoveries made by the RAA during FYs 2017-2021**



3.490. Audit clearance is one of the most effective instruments through which the RAA is able to enforce settlement of pending audit issues. The mandatory requirement of audit clearance for the purpose of training, promotion, further studies, contract renewal, retirement and superannuation for civil servants, and for election of politicians facilitates timely follow-up by the RAA. Furthermore, as part of strengthening the accountability framework, the RAA has collaborated with the Construction Development Board (CDB) and ensures those contractors with audit issues against their name are made to resolve pending audit issues prior to renewal of their contract license annually.

3.491. Based on the analysis and supporting evidence, the score for the dimension is A.

### **30.4 Supreme Audit Institution independence**

3.492. **Performance level and evidence for scoring of the dimension:** The independence of the RAA is enshrined in the Constitution 2008. Article 25 (2) stipulates *“The Royal Audit Authority shall be an independent authority headed by the Auditor General who shall be appointed by the Druk Gyalpo from a list of eminent persons recommended jointly by the Prime Minister, the Chief Justice of Bhutan, the Speaker, the Chairperson of the National Council and the Leader of the Opposition Party”*. Section 28 of the Audit Act 2018 stipulates that *“The Auditor General can be removed only by impeachment”*.

3.493. Article 25 (4) stipulates that *“The Royal Audit Authority shall, without fear, favor, or prejudice, audit the accounts of all departments and offices of the Government including all offices in the Legislature and the Judiciary, all public authorities and bodies administering public funds, the police and the defense forces as well as the revenues, public and other monies received and the advances and reserves of Bhutan”*. Article 25 (7) stipulates that *“The Royal Audit Authority shall function in accordance with the Audit Act”*.

3.494. Section 11 of the Audit Act 2018 states that *“The Authority shall enjoy full functional independence including planning and programming, investigation and reporting with regard to auditing”*, and Section 14 states that *“The State shall make adequate financial provisions for the independent administration of the Authority”*. Furthermore, Section 17 states that *“The Authority shall determine its organizational structure in consultation with Royal Civil Service Commission and administer it independently”*. Section 61 provides for the RAA’s right of access to records, documents and information.

3.495. Section 14 of the Audit Act 2018 states that *“The State shall make adequate financial provisions for the independent administration of the Authority”*. However, the RAA routes its proposed budget through the DPBP of the MoF, in its role as nodal agency entrusted with budget monitoring responsibilities.<sup>82</sup> The RAA’s draft budget for 2021/22 was approved by Parliament as proposed, and the RAA executes the approved budget without interference from the executive. The RAA has operational independence, although human resource management takes place within the parameters prescribed and in accordance with the Civil Service Act 2010.

3.496. The assessment of the RAA’s independence is summarized in the table below.

---

<sup>82</sup> The RAA noted the following in its recent SAI Performance Report: *“As per Article 14 of the Constitution, the State shall make adequate financial provisions for the independent administration of the Authority. It implicitly provides financial independence that the State shall provide financial provisions for the independent administration of the Authority. However, the RAA’s budget is approved by the Parliament as part of the National Budget in line with the Public Finance Act 2007. Since the RAA follows the government budgeting procedure and request budget through the Ministry of Finance (MoF) to the Parliament, the RAA in practice cannot be described as being independent of the MoF”* [RAA. 2021. SAI Performance Report. Thimphu, p. 32].

**Table 3.100: Supreme Audit Institution (SAI) independence**

Element/ Requirements	Met (Y/N)	Evidence used/Comments
1.The RAA operates independently from the executive with respect to:	-	-
- procedures for appointment and removal of the head of the supreme audit institution (SAI).	Yes	Article 25 (2) of the Constitution 2008 and Section 28 of the Audit Act 2018.
- the planning of audit engagements.	Yes	Section 11 of the Audit Act 2018.
- arrangements for publicizing reports.	Yes	Section 11 of the Audit Act 2018.
- the approval and execution of the RAA’s budget.	No (approval) Yes (execution)	RAA’s 2021 ‘SAI Performance Report’, p. 32. Sections 14-16 of the Audit Act 2018.
2. This independence is assured by law.	Yes	Constitution 2008 and Audit Act 2018.
3. The RAA has unrestricted and timely access to records, documentation and information for all audited entities.	Yes	Article 25 (4) of the Constitution 2008.

3.497. Based on the analysis and supporting evidence, the score for the dimension is C.

3.498. **Performance change since the previous assessment:** The score of PI-30.1 has changed from B in 2016 to A in 2022, which is because in 2022 the AARs have been used as the basis for assessing the audit coverage. The score of PI-30.2 has changed from B in 2016 to C in 2022, which is due to the AARs in one of the past three fiscal years being submitted to Parliament after more than six months. The score of PI-30.4 has changed from B in 2016 to C in 2022, which is because the RAA budget is routed through the DPBP of the MoF. The overall score in 2016 for PI-30 was B+, while it is C+ for current assessment.

3.499. **Recent or ongoing reform activities:** The RAA has, for audited entities to take action on audit issues and report to the RAA with an ATR, shortened the timeframe from three months to one month. Furthermore, the RAA has changed the reporting of the AAR from calendar year (audit reports issued from January to December) to fiscal year (audit reports issued from July to June) to align with the reporting of AFS, and also to ensure the timeliness of discussion on audit issues by Parliament. Moreover, the RAA has started conducting consolidated audits of Dzongkhags and Gewogs, Armed Forces, and projects (at the Project Management Unit level).

### **PI-31. Legislative scrutiny of audit reports**

3.500. This indicator focuses on legislative scrutiny of the audited financial reports of the central government, including institutional units, to the extent that either (a) they are required by law to submit audit reports to the legislature or (b) their parent or controlling unit must answer questions and take action on their behalf.



**Table 3.101: Minimum scoring requirements for PI-31**

Score	Minimum requirements for scores
<b>PI-31.1 Timing of audit report scrutiny</b>	
A	Scrutiny of audit reports on annual financial reports has been completed by the legislature within three months from receipt of the reports.
B	Scrutiny of audit reports on annual financial reports has been completed by the legislature within six months from receipt of the reports.
C	Scrutiny of audit reports on annual financial reports has been completed by the legislature within twelve months from receipt of the reports.
D	Performance is less than required for a C score.
<b>PI-31.2 Hearings on audit findings</b>	
A	In-depth hearings on key findings of audit reports take place regularly with responsible officers from <b>all</b> audited entities which received a qualified or adverse audit opinion or a disclaimer.
B	In-depth hearings on key findings of audit reports take place with responsible officers from <b>most</b> audited entities which received a qualified or adverse audit opinion or a disclaimer.
C	In-depth hearings on key findings of audit reports take place occasionally, covering <b>a few</b> audited entities or may take place with ministry of finance officials only.
D	Performance is less than required for a C score.
<b>PI-31.3 Recommendations on audit by legislature</b>	
A	The legislature issues recommendations on actions to be implemented by the executive and systematically follows up on their implementation.
B	The legislature issues recommendations on actions to be implemented by the executive and follows up on their implementation.
C	The legislature issues recommendations on actions to be implemented by the executive.
D	Performance is less than required for a C score.
<b>PI-31.4 Transparency of legislative scrutiny of audit reports</b>	
A	All hearings are conducted in public except for strictly limited circumstances such as discussions related to national security or similar sensitive discussions. Committee reports are debated in the full chamber of the legislature and published on an official website or by any other means easily accessible to the public.
B	Hearings are conducted in public with <b>a few</b> exceptions in addition to national security or similar sensitive discussions. Committee reports are provided to the full chamber of the legislature and published on an official website or by any other means easily accessible to the public.
C	Committee reports are published on an official website or by any other means easily accessible to the public.
D	Performance is less than required for a C score.

**Table 3.102: Summary of scores for PI-31 and performance table**

Indicator/Dimension	2016 Score	2022 Score	Brief justification for score
<b>PI-31 Legislative scrutiny of audit reports</b>	<b>B+</b>	<b>B+</b>	Scoring method M2
31.1 Timing of audit report scrutiny	B	B	Parliament's scrutiny of the AARs was for the last three fiscal years completed within six months from receipt of the AARs from the RAA.



31.2 Hearings on audit findings	C	C	Parliament's PAC has undertaken in-depth hearings on key findings of audit reports, which have covered a few audited RGoB entities.
31.3 Recommendations on audit by legislature	A	A	In its review reports on the AARs, which are tabled in and deliberated on in Parliament, the PAC issues recommendations on actions to be implemented by the executive. Follow-up on implementation of the recommendations is undertaken systematically.
31.4 Transparency of legislative scrutiny of audit reports	A	A	All hearings are held in public, and additional field visits are also carried out. The PAC's reports are tabled in joint sittings of Parliament for deliberation and consideration. The reports are published on the official website of Parliament.

3.501. Article 25 (6) of the Constitution 2008 mandates the Public Accounts Committee (PAC) "... to review and report on the Annual Audit Report to Parliament for its consideration or on any other report presented by the Auditor General". The PAC is a joint committee of the National Council and the National Assembly, and is governed by the Rules of Procedure of the Public Accounts Committee 2015. The PAC is required to review, examine, evaluate and report on the financial and administrative activities of any agency cited in the AAR. It may also review and report to Parliament on other reports presented to it by the RAA. The PAC has the power to summon witnesses for hearings to give evidence or produce documents, and may issue a warrant for apprehension if a witness fails to appear or fails to produce requested information or documentation.

### 31.1 Timing of audit report scrutiny

3.502. **Performance level and evidence for scoring of the dimension:** Although Section 69 of the Audit Act 2006 had stipulated that the Auditor General shall submit the AAR during the fourth quarter of the fiscal year (summer session of Parliament) on the audits carried out during the previous fiscal year, there were no Rules of Procedure for the deliberation of AAR in the Parliament. Hence, the AAR was submitted, scrutinized and deliberated in Parliament as per established precedence. However, after the amendment of the Audit Act in 2018 and framing of the Rules of Procedure of the PAC 2015, the procedures for tabling, reviewing and deliberation of AAR in the Parliament were streamlined.

3.503. Section 111 of the Audit Act 2018 states that "*The Auditor General shall submit the Annual Audit Report to the Druk Gyalpo, the Prime Minister and the Parliament during the fourth quarter of the financial year on the audit carried out for the financial year ended*". Likewise, Section 33 (i) of the Rules of Procedure of the PAC 2017 states that it shall report on the AAR during the winter session of Parliament.

3.504. In line with the above provisions, the AAR is tabled in Parliament during the fourth quarter of the fiscal year (summer session of Parliament) and deliberated during the second quarter of the next fiscal year (winter session of Parliament) even though the scrutiny of the AAR is completed by the PAC well before the deliberation on the same in Parliament.

3.505. The date of completion of scrutiny by the PAC, which is pegged to the date of the joint sitting (full chamber) of Parliament for deliberation, is not appropriate as the joint sitting is usually scheduled towards the last week of the Parliament session.

- The AAR is tabled during the summer session (second quarter of the fiscal year) of Parliament.
- After tabling of the AAR in Parliament, the House directs the PAC to review it and present its report to Parliament in the next session, i.e., winter session (fourth quarter of the fiscal year).
- After conducting in-depth review through various consultation meetings and hearings with relevant stakeholders, the PAC completes its report (scrutiny) prior to the commencement of the winter session.
- Though scrutiny of the report is completed prior to the commencement of the winter session, it is presented in Parliament on the day scheduled in the agenda.
- Parliament’s session last for almost one month and the date for presentation of the PAC’s report in Parliament are scheduled towards the end of the winter session (mostly after 20 to 25 days after the commencement of the winter session).
- Even though the scrutiny of the AAR is completed prior to the commencement of the winter session, the scrutiny of the report is deemed to be completed only after its presentation in Parliament (Joint Sitting of Parliament).

3.506. The table below shows the dates on which the AARs were received by Parliament from the RAA, and the dates that Parliament completed scrutiny of the AARs, for the last three completed fiscal years.

**Table 3.103: Timing of audit report scrutiny**

Fiscal Year	Dates of Receipt of the AAR from the RAA	Dates of Completion of Scrutiny by Parliament
2019/20 (AAR 2019)	1 July 2020	11 December 2020
2020/21 (AAR 2020)	22 June 2021	14 December 2021
2021/22 (AAR 2020/21)	15 December 2021	29 June 2022

3.507. The average timing of AAR scrutiny by Parliament was within six months from the receipt of the reports.

3.508. Based on the analysis and supporting evidence, the score for the dimension is B.

### **31.2 Hearings on audit findings**

3.509. **Performance level and evidence for scoring of the dimension:** The PAC conducts regular tripartite consultative meetings with the RAA and the audited budgetary bodies to understand the main reasons for unresolved issues and to facilitate resolving the issues at the earliest. The PAC also conducts field hearings to understand the nature of work at site and problems that affect execution. Such hearings are useful for many budgetary bodies in order to update follow-up actions as well as to ensure that irregularities are

resolved at the time of hearing. For unresolved irregularities, additional courses of action and mutually agreed timeline are decided. Attendance sheets and minutes of meetings, maintained by the National Assembly Secretariat, are evidence of such meetings having been conducted.

3.510. The PAC identifies audited budgetary bodies for hearings based on the gravity of the audit observations and prolonged unresolved issues. It also consults the RAA on the matter. From the audited budgetary bodies, heads of budgetary bodies comprising Secretary, Director General/Director, Chief Executive Officers (CEOs) of district administrations, elected local leaders of LGs, CEOs of corporations and autonomous agencies along with the officials directly dealing with the program, finance, technical or supervision attend the hearings. Likewise, the RAA is represented by the concerned Deputy Auditor General, Assistant Auditor General of the Regional Office and follow-up focal person.

3.511. The PAC along with RAA officials conducts stakeholder meetings with only those budgetary bodies where there are severe and/or unresolved audit issues. The details for the last three completed fiscal years are as follows:

- **FY 2019/20 (AAR 2019)** – Due to the COVID-19 pandemic and related lockdown restrictions, hearings on the AAR could not be conducted.<sup>83</sup>
- **FY 2020/21 (AAR 2020)** – A total of 109 budgetary bodies were audited, which included 10 ministries, 9 dzongkhag administrations, 4 dungkhag administrations, 49 gewogs administrations, 10 autonomous agencies, 15 PCs, 3 financial institutions and 9 NGOs. Out of 109 audited agencies (of which 17 were central government<sup>84</sup>), 22 hearings were conducted with 39 agencies of which 13 were central government budgetary bodies.<sup>85</sup>
- **FY 2021/22 (AAR 2020/21)** – A total of 152 budgetary bodies were audited, which included 8 ministries, 8 dzongkhag administrations, 4 dungkhag administrations, 85 gewog administrations, 10 autonomous agencies, 23 PCs, 3 financial institution, 8 NGOs and 3 hydropower projects. Out of 152 audited budgetary bodies (of which 15 were central government<sup>86</sup>), 13 hearings were conducted of which 1 was central government budgetary body.<sup>87</sup>

3.512. Based on the analysis and supporting evidence, the score for the dimension is C.

### **31.3 Recommendations on audit by legislature**

3.513. **Performance level and evidence for scoring of the dimension:** Based on its review of the AARs, the PAC provides recommendations on actions to be implemented by the executive

---

<sup>83</sup> However, six hearings were conducted with 18 agencies on performance audit reports.

<sup>84</sup> 1) Anti-Corruption Commission (ACC); 2) Bhutan InfoComm and Media Authority (BICMA); 3) Dratshang Lhentshog; 4) GNHC; 5) Judiciary; 6) National Center for Hydrology and Meteorology (NCHM); and, 7) Royal University of Bhutan (RUB) and ten ministries.

<sup>85</sup> All 10 ministries, Dratshang Lhentshog, GNHC, and Royal University of Bhutan (RUB)

<sup>86</sup> 1) Centre for Bhutan & GNH Studies (CBS); 2) Gedu College of Bhutan Studies (GCBS); 3) GNHC; 4) Jigme Dorji Wangchuk National Referral Hospital (JDWRH); 5) National Council; 6) Tourism Council of Bhutan; 7) Judiciary and eight ministries.

<sup>87</sup> Ministry of Economic Affairs (MoEA)

for deliberation and consideration by Parliament. The recommendations are, together with a synthesis of the AAR and a list of the PAC's main observations, included in the 'Report of the Public Accounts Committee'.<sup>88</sup>

3.514. After the conclusion of the parliamentary session, all resolutions of Parliament pertaining to the PAC's report are shared – through the PMO – with the concerned entities for implementation. The entities prepare ATRs which, in collaboration with the PMO, are submitted to the PAC. The PMO follows up on the status of implementation and reports on this to Parliament.

3.515. The RAA and the PAC share a strong institutional linkage and meet twice annually (before the start of the summer session and winter session, respectively) to discuss unresolved audit issues. The RAA follows up with the concerned entities through follow-up letters seeking ATRs as well as by conducting bilateral meetings, and information on the implementation status is provided to the PAC. The PAC reviews the information received and holds hearings with entities that have failed to, or delayed in, taking remedial measures. The overall implementation status is subsequently incorporated into the PAC's next report, together with previous unresolved issues, which is tabled in Parliament.<sup>89</sup> Hence, the quality of follow-up on the implementation of the recommendations is systematic and well-established.

3.516. Based on the analysis and supporting evidence, the score for the dimension is A.

#### **31.4 Transparency of legislative scrutiny of audit reports**

3.517. **Performance level and evidence for scoring of the dimension:** As provided in Section 37 of the Rules of Procedure of the Public Accounts Committee 2017, reports are circulated to all members of Parliament two days in advance of the actual presentation to Parliament followed by deliberation in the full chamber of legislature (joint sitting wherein all members of the National Assembly and the National Council are present). On average, two full days of the session are devoted for presentation and deliberation on the PAC's report in the Joint Sitting.

3.518. The number of hearings on the AARs conducted by the PAC during the last three completed fiscal years are as follows:

- **FY 2019/20** – 0 hearings were conducted (due to the COVID-19 pandemic).
- **FY 2020/21** – 22 hearings were conducted.
- **FY 2020/22** – 13 hearings were conducted.

---

<sup>88</sup> For example, the PAC's report to the Sixth Session of the Third Parliament (December 2021) includes the following recommendations to the executive: "... the Executive to enforce the judgments passed by the Court and put in place a mechanism to hold the agency concerned accountable" and "... the heads of agencies to take up the responsibility to assume the full accountability for any audit irregularities/observations".

<sup>89</sup> For example, the PAC's report to the Sixth Session of the Third Parliament (December 2021) includes a dedicated chapter with 'Follow Up on Review Reports of AARs 2020-2019' and a status overview of unresolved/resolved irregularities as of 30 September 2021.

3.519. All hearings were held in public. Additional field hearings were also carried out. After deliberation of the PAC's report, it is published in the official website.<sup>90</sup>

3.520. Based on the analysis and supporting evidence, the score for the dimension is A.

3.521. **Performance change since the previous assessment:** The overall score of B+ remains unchanged compared to the 2016 PEFA assessment.

---

<sup>90</sup> <https://www.nab.gov.bt/en/content/public-accounts-committee-joint-committee>.



## 4. CONCLUSIONS ON THE ANALYSIS OF THE PFM SYSTEM

4.1. This Chapter provides an integrated analysis and states the overall conclusions on the RGoB's PFM performance based on the information provided in Chapters 2 and 3. The analysis in particular seeks to assess the PFM performance across the seven pillars and explain how this affects the RGoB's ability to deliver on intended fiscal and budgetary outcomes, and identify the main weaknesses of the RGoB's PFM system.

### *4.1 Integrated Assessment of PFM Performance*

4.2. This section summarizes the key strengths and weaknesses of the RGoB's PFM system in terms of the seven pillars of PFM performance, including interdependence between indicators within and across pillars.

#### **I. Budget reliability**

4.3. The RGoB's performance under Pillar I – i.e., whether the annual budget is realistic and implemented as intended – is at a basic level.

4.4. During FY 2019/20-FY 2021/22 the RGoB managed, despite unprecedented external challenges, to maintain fiscal discipline at the aggregate level. This was supported by in-year budget adjustments taking place only once a year (PI-21.4) that were based on clear rules and were done transparently (PI-18.4), although the basis for in-year cash forecasting was unclear (PI-21.2). However, expenditure composition variance was high for administrative classifications (between 8.3%-37.2%) and, especially, economic classifications (between 27.6%-50.4%). This was caused mainly by the shifting of planned and new capital spending by the MoF in FY 2019/20 to salary plus goods and services and, in particular in FY 2020/21 to other recurrent expenditure, including special allowances, kidu, stipends, retirement and medical in response to the COVID-19 pandemic. No expenditure was charged against the General Reserve provisioned under the MoF since contingency funds were instead transferred to the budgetary bodies and expenditure accounted for under these.

4.5. The RGoB's aggregate-level revenue performance during FY 2019/20-FY 2021/22 was good (out-turns ranging from 95.8% to 110.9%), which was supported by a well-functioning revenue administration (PI-19) and revenue accounting procedures (PI-20) and, despite notable weaknesses in fiscal forecasting (PI-14.2) and in assessing the fiscal impact of policy proposals (PI-15.1). However, the variance in revenue composition was high for all three years (between 29.7% and 39.5%). Different revenue types over- or under-performed in different years, while external grants were notably below budget in FY 2020/21 and FY 2021/22.

#### **II. Transparency of public finances**

4.6. The RGoB's performance under Pillar II – i.e., whether information on PFM is comprehensive, consistent, and accessible to users – is sound and well in line with many elements of good international practices, and has overall improved since the 2016 PEFA assessment.



4.7. The RGoB's budget classification system (CoA) is broadly based on international standards and enables tracking and reporting expenditure by administrative, economic (GFS) and functional (COFOG) categories through the MYRB system and the e-PEMS. Revenues are roughly based on the GFS although, despite hydropower accounting for one-third of domestic revenues, these are not specifically identified in published documents.

4.8. The annual budget documentation published by the MoF meets basic international standards in several areas, but some macroeconomic assumptions (PI-14.1), information on fiscal risks (PI-10.3) and financial assets (PI-12.1), explanations of budget implications of policy initiatives (PI-15.1), documentation on medium-term fiscal forecasts (PI-16.1), and quantification of tax expenditures are absent. The public has access to most key fiscal information, although a pre-budget statement is not prepared, and some elements of macroeconomic forecasts are missing.

4.9. The extent of RGoB revenues and expenditures reported outside the National Budget Report and the AFS is relatively low (as also noted under PI-29.1 that the AFS cover all government budgetary bodies), and detailed financial reports covering most EBU revenues and expenditures are submitted to the MoF in a timely manner.

4.10. The transparency and timeliness of RGoB transfers to the LGs is high as the allocation of annual grants is determined based on a clear and rules-based approach, and the LGs received detailed information and adequate time to complete their budget planning.

4.11. The RGoB's GPMS is well-functioning and requires budgetary bodies to enter into APAs, which include service delivery targets that are monitored in terms of achievements on an annual basis. Information on objectives, KPIs, and planned outputs and outcomes is published but, although actual achievements in terms of activities performed, outputs produced and outcome achieved are evaluated, this information is not published. However, reports on resources received by frontline SDUs can be generated, and the RAA regularly undertakes performance audits on the efficiency and effectiveness of service delivery.

4.12. The public has access to most elements of fiscal information, including all five basic elements and two out of four additional elements, but not a pre-budget statement (as a such is not prepared by the RGoB) and the budget documentation for FY 2022/23 did also not show the forecasts of all key macroeconomic indicators (PI-14.1).

### **III. Management of assets and liabilities**

4.13. The RGoB's performance under Pillar III – i.e., whether fiscal risks are identified and monitored, public investments provide value-for-money, asset maintenance is well-planned and follows clear procedures, and debts and guarantees are prudently planned, approved and monitored – is at a basic level of alignment with international practices, and has overall decreased since the 2016 PEFA assessment.

4.14. The RGoB's fiscal risk reporting is overall well-developed as regards contingent liabilities and other fiscal risks, which are reported in the National Budget Report and the AFS, although not all contingent liabilities are included. There are shortcomings in the monitoring of PCs as some submit their financial reports to the MoF with delay (PI-12.1) and only some

PCs publish their audited financial statements. Also, while the AFS of LGs are audited by the RAA, the RAA's AARs contain only limited information on LG expenditures and receipts, and the audited AFS of individual LGs are not published.

4.15. The public investment management function, which in Bhutan is decentralized, needs improvement in several areas. While major investment projects are prepared based on specific guidelines that include feasibility studies, but economic analyses (i.e., cost-benefit analyses) are not done systematically. Guidelines for economic analysis are under preparation, and yet to be finalized. In terms of project selection, for the period under review, less than half of major investment projects were subject to a selection process as per the RGoB's Flagship Program Guidelines and, thus, prioritized based on published standards prior to inclusion in the budget. While projections of the total capital cost of major investment projects, together with a year-by-year breakdown of capital costs and estimates of recurrent costs for the next three years, are available at the aggregate level, project-wise data is not available, and budget documents only list capital cost projections for the forthcoming year. However, investment project monitoring is relatively well-functioning as it is based on standard procedures and rules for implementation, undertaken regularly and at different levels, covering physical as well as financial progress, and with annual reports published.

4.16. Public asset management is well-performing in terms of financial asset monitoring, with the RGoB maintaining a record of its holdings and with information published in the RMA's annual report, although not in the AFS (PI-5, Element 8), and with clear procedures in place for transfer and disposal of assets that include information published in the AFS. However, while the GIMS records non-financial assets have been fully implemented centrally, it could be strengthened by covering sub-soil assets.

4.17. The RGoB's debt management is well-functioning. Data on debt and guarantees is complete, accurate, and reconciled monthly, and the MoF publishes a comprehensive Public Debt Situation Report each quarter. Information on public debt is also included in the National Budget Report (PI-5, Element 7). The Finance Minister is, subject to Cabinet approval, authorized to borrow as well as to issue new debt and loan guarantees. The three-year MDTS, issued in March 2021, covers existing and projected government debt and includes target ranges for relevant indicators, the annual borrowing plan is consistent with the MDTS, and annual reporting against debt management objectives is provided to Parliament. A Debt Sustainability Analysis is also published.

#### **IV. Policy-based fiscal strategy and budgeting**

4.18. The RGoB's performance under Pillar IV – i.e., whether the fiscal strategy and the budget are prepared with due regard to fiscal policies, strategic plans, and adequate macroeconomic and fiscal projections – is at a basic level, and has overall declined since the 2016 PEFA assessment.

4.19. While the MoF's macroeconomic and fiscal forecasting is based on solid frameworks and well-established procedures, and involves both the MFCTC and the MFCC, not all assumptions underlying the macroeconomic forecasts were presented in the latest National Budget Report (PI-5, Element 6), which also did not include fiscal forecasts for the next two years or a qualitative discussion of forecast sensitivities. The RGoB has in place a fiscal

strategy, comprising relevant fiscal policy targets established across different documents, and it submits to Parliament a report that describes progress made against the strategy. However, the budgeted fiscal deficit in the FY 2022/23 budget was significantly higher than that fiscal target and, also, there is no proper mechanism for the MoF to prepare fiscal impact studies of all revenue and expenditure policy proposals (PI-5, Element 10).

4.20. The annual budget preparation process, including Parliament's review of the budget, is well-functioning, although the Budget Call Circular for FY 2022/23 did not specify ceilings. Expenditure budgeting has a medium-term perspective in that the government approves aggregate expenditure ceilings for the budget year as well as the two following years before the MoF issues the Budget Call Circular to the budgetary bodies. However, the National Budget Report for FY 2022/23 only presented expenditure estimates for the budget year and not for the two following fiscal years due to the non-availability of 13<sup>th</sup> FYP estimates (PI-5, Element 11). While entity-level strategic plans are prepared as part of the FYPs, the medium-term budgets to some extent diverge from the plans due to changing policies and priorities, and there is not full consistency of budgets with previous year's estimates (PI-14.2).

#### **V. Predictability and control in budget execution**

4.21. The RGoB's performance under Pillar V – i.e., whether the budget is implemented within a system of effective standards, processes, and internal controls that help to ensure that resources are obtained and used as intended– is sound and in line with many elements of good international practices, and has overall improved since the 2016 PEFA assessment.

4.22. Revenue administration, including the accounting for revenues, is well-developed, which is a factor in actual revenue being relatively close to budgeted revenue (PI-3.1). The DRC provides comprehensive information on obligations and rights to taxpayers, uses a structured and systematic approach to assess and prioritize compliance risks, and undertakes audits and fraud investigations based on a compliance improvement plan. However, the stock of revenue arrears at end-FY 2021/22 is calculated to be relatively high.

4.23. The predictability of in-year resource allocation is high as the budgetary bodies have authority to commit and spend their budget as approved through monthly releases calculated based on physical and financial forecasts. In-year budget adjustments are not significant. However, the monthly updates to the cash flow forecast are not based on actual cash inflows and outflows, and balances outside the TSA are not being consolidated. A system for collation, consolidation and reporting of expenditure arrears has still not been put in practice.

4.24. Internal controls on non-salary expenditure are well-functioning, with adequate segregation of duties, comprehensive commitment controls that effectively limit commitments to approved budgets, and all payments compliant with payment procedures. Payroll is processed through the GPS, which all budgetary bodies are required to use, and salary disbursement is done through e-PEMS. However, payroll data and personnel records, which are maintained by the RCSC in the ZEST as well as in hard-copy files by the RCSC and the budgetary bodies, are not integrated and periodic reconciliations between the records is also not undertaken. While sufficient controls are in place to ensure integrity of payroll data, there is no system of annual payroll audits. The adequacy and effectiveness of the internal controls is assessed by the RGoB's internal audit function, which is operational in most

budgetary bodies. Annual internal audit programs are implemented to a high degree and managements generally provide responses to recommendations on a timely basis. The internal audit function follows the Institute of Internal Auditors (IIA) standards and was subject to independent external audit, while a continuous internal quality assessment system has been instituted.

4.25. Procurement is relatively well-functioning for three of the four dimensions covered (PI-24). Procurement monitoring is weak as only about one-third of procurement is carried out through the e-GP system, although records are accurate and complete for a majority of transactions. The basic method of procurement is open tender, covering more than 76% of total value of all contracts (e-GP and manually) awarded during FY 2021/22. There is public access to all key procurement information, except annual procurement statistics, and the complaints management is well-developed.

## **VI. Accounting and reporting**

4.26. The RGoB's performance under Pillar VI – i.e., whether the extent to which accurate and reliable records are maintained, and information is produced and disseminated at appropriate times to meet decision-making, management, and reporting needs – is sound and well in line with many elements of good international practices, and has overall improved since the 2016 PEFA assessment.

4.27. The level of financial data integrity is relatively high as user access and changes to records in e-PEMS is restricted and recorded, results in an audit trail, and the DTA has a dedicated section in charge of e-PEMS user management. Also, reconciliations for all active RGoB bank accounts as well as of advance accounts take place at least monthly and usually within one week from the end of each month, and all advance accounts are cleared in a timely way. However, reconciliation of suspense accounts is done only annually.

4.28. The RGoB's quarterly in-year budget performance reports cover all relevant elements, and were for FY 2021/22 issued and published within five weeks from quarter-end, and are based on reliable data that is useful for analysis (PI-28). This also follows from the quality of the budget classification system (PI-4), although it does not capture the commitment stage. The AFS cover all budgetary bodies and include revenues, expenditures and cash balances (PI-6), but not financial assets and liabilities. The accounting standards are disclosed in the AFS and are applied consistently over time. The AFS are now submitted to the RAA for audit in less than three months after fiscal year-end (PI-30.2).

## **VII. External scrutiny and audit**

4.29. The RGoB's performance under Pillar VII – i.e., whether public finances are independently reviewed and there is external follow-up on implementation of the executive's recommendations – is sound and in line with many elements of good international practices, and has marginally declined since the 2016 PEFA assessment.

4.30. The quality of the RAA's audits is high as seen in the adoption of the ISSAIs as the applicable auditing standards that help to identify material issues and systemic and control risks. Also, it annual audits the RGoB's AFS which includes revenue, expenditure, assets and liabilities of all central government entities, and the RAA's AARs highlight relevant material

issues and systemic and control risks. The RAA submitted the AARs for FY 2020/21 and FY 2021/22 within two and a half months, but the AAR for FY 2019/20 was submitted after almost eight months. The AARs are published (PI-9, Element 5), and there is clear evidence of effective and timely follow-up by the executive on audit findings and recommendations. The RAA is fully independent from the executive except that it requests its annual budget through the MoF rather than directly from Parliament.

4.31. Parliament's scrutiny of audit reports is timely (completed within six months from receipt of the RAA's AARs), transparent (all hearings are public, field visits are carried out, and reports are published), and effective (the PAC issues recommendations on actions to be implemented by the executive, and undertakes systematic follow-up on implementation). However, the PAC conducts hearings with only few audited RGoB entities.

#### **4.2 Effectiveness of the Internal Control Framework**

4.32. The requirement for the MoF to set rules, procedures and standards for an effective, efficient and transparent system of internal controls, and to monitor its performance, is stated in the PFA 2007 (Section 23 (e)). The MoF in 2013 issued the National Internal Control Framework (NICF) so as to provide an overall framework for implementing and maintaining effective internal controls, describe internal controls for heads of agencies to implement, and describe appropriate internal control practices for major functional areas. The NICF is based on the five components – control environment, risk assessment, control activities, information and communication, and monitoring – identified by international standards.<sup>91</sup> Specific internal control requirements are detailed in the FMM 2016 (Section 3.3. E.), as a separate element of the 'System of Accounting', and oblige all entities to establish proper working systems and procedures, including transparent and well-defined controls and checks, to achieve the RGoB's financial management and accountability objectives.<sup>92</sup>

4.33. As evidenced in Annex 2, the internal control system operates effectively across the relevant components:

- **Control environment** – The integrity and ethical values are respected by management and staff as seen by the responses to the RAA's audit reports; the RCSC aims to ensure that only competent staff are appointed and that career progress is based on performance; the 'tone at the top' is unequivocally by the Druk Gyalpo (King); organizational structures in most cases provide a clear separation between operating and oversight functions; and, human resource policies and practices support implementation of rules.
- **Risk assessment** – The NICF requires ministries and agencies to identify and evaluate risks at all levels, and establish policies, plans, procedures and systems to deal with risks; the NICF also requires that self-assessments of the five control components conducted, including for taxes and non-tax revenues, major investment projects, in relation to PCs, and for debt and contingent liabilities; and, implement adequate mitigation measures (transfer, tolerance, treatment or termination) in response to identified risks.

---

<sup>91</sup> The five components set out in the Committee of Sponsoring Organizations (COSO) framework.

<sup>92</sup> The internal control system must specifically ensure segregation of duties, i.e. that different stages of a transaction process are handled by different persons. In particular, the verifying officer, the sanctioning authority, and disbursement officers preferably are different persons.



- **Control activities** – Budget authorization and approval procedures are based on responsibility centers, and expenditures are controlled through computerized systems; the responsibility for authorization, processing, recording, and reviewing of transactions and custody of assets are prescribed by the FRR and incorporated in e-PEMS; there are controls over access to resources and records; accounting procedures include verifications and reconciliations; multiple monitoring procedures are in place; and, implementing entities have dedicated focal official assigned to supervise activities.
- **Information and communication** – Operational and financial information for managers are available through the MYRB system, e-PEMS, e-GP system, and RAMIS.
- **Monitoring** – In addition to monitoring arrangements, the GPMS provides for regular evaluations, and the RAA undertakes performance audits for which accountable managers of the auditees submit ATRs on the implementation of recommendations.

4.34. The PFM assessment shows that the RGoB’s internal control mechanisms overall function well. The internal controls on non-salary expenditure (PI-25) are quite effective, with segregation of duties prescribed throughout the expenditure process, expenditure commitment controls effectively limiting commitments to approved budget allocations, and payments being compliant with payment procedures. However, a few issues have been noted.<sup>93</sup> The integrity of financial data (PI-27) is well-established, with reconciliations of bank accounts and advance accounts taking place monthly, and the MoF having in place a unit to verify financial data, although reconciliation of suspense accounts takes place only annually. In-year budget reporting (PI-28) is comprehensive and accurate, although still not quite timely. Revenue risk management and revenue audit and investigation (PI-19) are also well-functioning. Only as regards payroll controls (PI-23) does the PFM assessment show some weaknesses, especially in relation to segregation of duties with maker-checker controls in the GPS where entities with limited human resources (smaller budgetary bodies) in a few limited cases have generated inadmissible salary payments to staff or prepared incorrect salary deductions.

4.35. The RGoB’s internal control system and applied procedures thus provide a high level of reasonable assurance that (i) financial transactions are executed in an orderly, ethical, economical, efficient, and effective manner; (ii) accountability obligations are fulfilled; (iii) applicable laws and regulations are complied with; and, (iv) resources are safeguarded against loss, misuse and damage.

### **4.3 PFM Strengths and Weaknesses**

4.36. This section analyzes how and to which extent the performance of the PFM system supports or affects the overall achievement of the three fiscal and budgetary outcomes.

4.37. An overview of the results is provided in the table below prepared based on the PFM performance assessed. It shows that while just over one-third of the relevant PIs (‘advanced’

---

<sup>93</sup> A recent RAA performance audit of the e-PEMS found that, although the maker-checker concept was defined in the system, it was not fully implemented as a large number of users were provided with all level access rights, and that a few users had therefore managed to override controls and embezzle funds using their access to the system for preparation of vouchers, approval and payments. However, the DTA responded that the maker-checker process, while embedded in the system, was not possible to strictly follow in cases of “*single handed accounting functionaries such as regional/field offices and Gewogs*”, although this was being sought addressed with the establishment of CFS.

and ‘good’) support the achievement of aggregate fiscal discipline, it is almost half of the PIs as regards strategic allocation of resources, and close to two-thirds of the PIs in terms of efficient service delivery. In other words, the RGoB’s PFM system is most supportive in realizing operational efficiency aimed at using budgeted revenues to achieve the best levels of public services within available resources. The PFM system is also somewhat supportive in attaining allocative efficiency by planning and executing the use of budget resources in line with the RGoB’s priorities aimed at meeting policy objectives. However, the PFM is relatively less supportive in ensuring effective control of the budget and management of fiscal risks so as to bring about aggregate fiscal discipline.

**Table 4.1: Cross-table of PEFA PFM PIs and budgetary outcomes**

Pillar	Indicator	1. Aggregate fiscal discipline	2. Strategic allocation of resources	3. Efficient service delivery
<b>I. Budget reliability</b>	1. Aggregate expenditure out-turn	GOOD		
	2. Expenditure composition out-turn		BELOW BASIC	BELOW BASIC
	3. Revenue out-turn	BASIC		
<b>II. Transparency of public finances</b>	4. Budget classification		ADVANCED	
	5. Budget documentation		BASIC	
	6. Central government operations outside financial reports	GOOD	GOOD	
	7. Transfers to subnational governments		ADVANCED	ADVANCED
	8. Performance information for service delivery			BASIC
	9. Public access to fiscal information			GOOD
<b>III. Management of assets and liabilities</b>	10. Fiscal risk reporting	BASIC		
	11. Public investment management	BELOW BASIC	BELOW BASIC	
	12. Public asset management	BASIC		
	13. Debt management	ADVANCED		
<b>IV. Policy-based fiscal strategy and budgeting</b>	14. Macroeconomic and fiscal forecasting	BASIC		
	15. Fiscal strategy	BELOW BASIC	BELOW BASIC	
	16. Medium term perspective in expenditure budgeting	BELOW BASIC	BELOW BASIC	BELOW BASIC
	17. Budget preparation process		BASIC	
	18. Legislative scrutiny of budgets		ADVANCED	
<b>V. Predictability and control in budget execution</b>	19. Revenue administration		ADVANCED	ADVANCED
	20. Accounting for revenue		ADVANCED	ADVANCED
	21. Predictability of in-year resource allocation	GOOD		GOOD
	22. Expenditure arrears	BELOW BASIC		
	23. Payroll controls			BELOW BASIC
	24. Procurement management			GOOD
	25. Internal controls on non-salary expenditure	ADVANCED		ADVANCED
	26. Internal audit			ADVANCED
<b>VI. Accounting and reporting</b>	27. Financial data integrity			ADVANCED
	28. In-year budget reports	BASIC	BASIC	BASIC
	29. Annual financial reports			BASIC
<b>VII. External scrutiny and audit</b>	30. External audit			BASIC
	31. Legislative scrutiny of audit reports			ADVANCED



4.38. The identified strengths and weaknesses of the PFM system in supporting the three budgetary outcomes are briefly described below. Table 4.2 below provides more details.

#### **A. Aggregate fiscal discipline**

4.39. The achievement of aggregate fiscal discipline is in particular supported by aggregate expenditure out-turn (PI-1.1) as well as aggregate revenue out-turn (PI-3.1) being relatively close to the budget plans. Also, operations outside RGoB financial reports are relatively limited (PI-6), there is generally a high level of budget transparency (PI-4 and PI-9), management of financial assets is well-developed (PI-12.1), and the MoF's debt management procedures are effective (PI-13). Furthermore, the MFCTC prepares three-year forecasts for selected macroeconomic indicators (PI-14.1) as well as forecasts of relevant fiscal indicators (PI-14.2),<sup>94</sup> internal controls on non-salary expenditure are effective (PI-25), and quarterly budget performance reports are accurate (PI-28.3).

4.40. However, weaknesses in the RGoB's PFM performance that may jeopardize achieving fiscal discipline include the absence of adequate monitoring of PCs and LGs (PI-10.1 and PI-10.2), shortcomings across several dimensions of public investment management (PI-11), no mechanism wherein the MoF prepares fiscal impact studies of all revenue and expenditure policy proposals (PI-15.1), lack of adherence to the proposed fiscal deficit target in preparing the FY 2022/23 budget (PI-15.2), issues in medium-term expenditure budgeting (PI-16), and absence of a system for monitoring expenditure arrears (PI-22).

#### **B. Strategic allocation of resources**

4.41. The achievement of strategic allocation of resources is above all supported by the RGoB's robust budget classification system (PI-4), transparent and comprehensive information available on public finances, including as regards the rules-based determination of annual grants for LGs (PI-7), a clear annual budget calendar exists that is adhered to and allows the budgetary bodies adequate time to prepare their budget submissions (PI-17.1), and Parliament's scrutiny of the budget being well-developed (PI-18). Also, the DRC's revenue administration is well-functioning (PI-19), including in terms of accounting for revenues (PI-20), and reliable financial data is available for the preparation of the quarterly budget performance reports as well as the AFS (PI-27, PI-28 and PI-29).

4.42. However, weaknesses in the RGoB's PFM performance that may hinder achieving strategic resource allocation include high deviation in the composition of expenditures and revenues deviated significantly from the budget plans (PI-2 and PI-3.2), limitations in the budget documentation provided to the public (PI-5), several shortcomings in the RGoB's public investment management (PI-11), lack of adherence to the proposed fiscal deficit target in preparing the FY 2022/23 budget (PI-15.2), issues in medium-term expenditure budgeting (PI-16), and absence of ministry-level budget ceilings for FY 2022/23 (PI-17.2).

#### **C. Efficient service delivery**

4.43. The achievement of efficient service delivery is mainly supported by transfers to LGs being based on transparent and rules-based criteria as well as information on the annual grants being available in a timely manner (PI-7), the availability of performance information

---

<sup>94</sup> The reason that PI-14.1 and PI-14.2 were scored "C" in the PEFA assessment is solely that the forecasts were not published.

on plans for, resources available to, and the performance of SDUs (PI-8), public access to key fiscal information (PI-9), effective revenue administration (PI-19) and accounting for revenues (PI-20). Also, there is predictability on in-year resource availability (PI-21), a well-functioning procurement system (PI-24), internal controls on non-salary expenditure are being complied with (PI-25.3), the internal audit function is well-performing (PI-26), financial data integrity is relatively high (PI-27), in-year budget reports are of adequate quality although not fully timely (PI-28), and the RAA's financial, performance and compliance audits help to identify inefficiencies in program implementation and service delivery (PI-30).

4.44. However, weaknesses in the RGoB's PFM performance that may put at risk achieving efficient service delivery include the high variations in expenditure composition out-turn (PI-2) and revenue composition out-turn (PI-3.2), absence of sound public investment management (PI-11), medium-term budgets diverging from entity-level strategic plans (PI-16.3), and lack of integration of payroll and personnel records (PI-23.1).

**Table 4.2: PEFA PFM PIs and the three budgetary outcomes**

Indicator/dimension	Aggregate fiscal discipline	Strategic allocation of resources	Efficient service delivery
<b>Pillar I: Budget reliability.</b>			
The government budget is realistic and is implemented as intended. This is measured by comparing actual revenues and expenditures (the immediate results of the PFM system) with the original approved budget.			
<b>PI-1. Aggregate expenditure out-turn</b>	X	<p><u>Strength:</u> Both aggregate expenditure out-turn and aggregate revenue out-turn were relatively close to the budget plans, which thus support fiscal discipline.</p> <p><u>Weakness:</u> The composition of expenditures and revenues deviated significantly from the budget plans, which indicates that the RGoB had difficulties to effectively and predictably allocate resources to strategic policy priorities.</p>	<p><u>Weakness:</u> The quantity and quality of service delivery may have been adversely affected by the large deviations from the planned expenditures during the period under review.</p>
<b>PI-2. Expenditure composition out-turn</b>		X	
<b>PI-3. Revenue out-turn</b>	X		
<b>Pillar II: Transparency of public finances.</b>			
Information on PFM is comprehensive, consistent, and accessible to users. This is achieved through comprehensive budget classification, transparency of all government revenue and expenditure including intergovernmental transfers, published information on service delivery performance and ready access to fiscal and budget documentation.			
<b>PI-4. Budget classification</b>		X	<p><u>Strength:</u> The availability of performance information on plans for, resources available to, and the performance of SDUs enable the public to assess the efficiency of the RGoB's service delivery.</p>
<b>PI-5. Budget documentation</b>		X	
<b>PI-6. Central government operations outside financial reports</b>	X	X	
<b>PI-7. Transfers to subnational governments</b>		X	X
<b>PI-8. Performance information for service delivery</b>			X
<b>PI-9. Public access to fiscal information</b>			
<p><u>Strength:</u> The RGoB's robust budget classification system and generally high level of budget transparency enables decisions, transactions and performance of service delivery programs to be monitored throughout the budget's formulation, execution, and reporting cycle provides a relatively complete picture of the RGoB's finances.</p> <p><u>Strength:</u> Operations of the RGoB outside of its financial reports are relatively limited.</p>			

Indicator/dimension	Aggregate fiscal discipline	Strategic allocation of resources	Efficient service delivery
<b>Pillar III: Management of assets and liabilities.</b>			
Effective management of assets and liabilities ensures that public investments provide value for money, assets are recorded and managed, fiscal risks are identified, and debts and guarantees are prudently planned, approved, and monitored.			
<b>PI-10. Fiscal risk reporting</b>	X <u>Weakness:</u> The absence of adequate monitoring of PCs and LGs could in principle undermine fiscal discipline. <u>Weakness:</u> The lack of economic analyses of major investment projects as well as deficient project selection and project costing processes means that resources for capital investments may not be effectively managed within sustainable fiscal limits. <u>Strength:</u> Management of financial assets is well-developed. <u>Strength:</u> The RGoB's effective debt management procedures support maintaining fiscal discipline.	<u>Weakness:</u> The lack of economic analyses of major investment projects as well as deficient project selection and project costing processes means that resources may not be allocated fully in line with the RGoB's economic and social development objectives. <u>Strength:</u> The relatively well-functioning public asset management supports the RGoB in ensuring that adequate resources can be allocated for operation and maintenance of non-financial assets.	<u>Weakness:</u> The absence of sound public investment management, including issues with project selection and project costing, means that selected projects and programs may not deliver outputs and outcomes in a cost-efficient manner.
<b>PI-11. Public investment management</b>	X	X	
<b>PI-12. Public asset management</b>	X		
<b>PI-13. Debt management</b>	X		
<b>Pillar IV: Policy-based fiscal strategy and budgeting.</b>			
The fiscal strategy and the budget are prepared with due regard to government fiscal policies, strategic plans, and adequate macroeconomic and fiscal projections.			
<b>PI-14. Macroeconomic and fiscal forecasting</b>	X <u>Strength:</u> The MFCTC prepares three-year forecasts for selected macroeconomic indicators which provide forward year estimates as baselines for future budget ceilings and allocations, and thus support aggregate fiscal discipline. <u>Strength:</u> The MFCTC prepares forecasts of relevant fiscal indicators, which is essential for a predictable	<u>Strength:</u> The macroeconomic and fiscal forecasts together with the fiscal strategy set clear fiscal policy objectives that, including through the medium-term perspective in budgeting, enables the RGoB to effectively plan budget allocations in accordance with its priorities. <u>Weakness:</u> Although the budget	<u>Strength:</u> The preparation of the medium-term budget helps to provide budgetary bodies with a level of predictability in terms of budget allocations to efficiently plan resource use going forward. <u>Weakness:</u> Medium-term budgets may in some cases diverge from entity-level strategic plans, i.e. the resource requirements
<b>PI-15. Fiscal strategy</b>	X	X	

Indicator/dimension	Aggregate fiscal discipline	Strategic allocation of resources	Efficient service delivery
PI-16. Medium-term perspective in expenditure budgeting	X and sustainable fiscal strategy that supports aggregate fiscal discipline. <u>Weakness:</u> Not all assumptions underlying the macroeconomic forecasts are included in the National Budget Reports, which for FY 2022/23 also did not include the fiscal forecasts for the next two years. <u>Weakness:</u> In preparing the FY 2022/23 budget, the RGoB did not adhere to the proposed fiscal deficit target. <u>Weakness:</u> There is no mechanism wherein the MoF prepares fiscal impact studies of all revenue and expenditure policy proposals.	X formulation process is clear and orderly, the absence of ministry-level ceilings for FY 2022/23 may have adversely affected the prioritization of allocations among competing demands. <u>Strength:</u> The scrutiny of the budget by Parliament supports holding the RGoB accountable for its budget policy decisions.	X identified in the latter may not be allocated and planned outputs and outcomes not delivered. <u>Strength:</u> The scope of Parliament's budget scrutiny provides a basis for identifying potential issues in public service delivery, including the adequacy of the resources allocated.
PI-17. Budget preparation process	X	X	
PI-18. Legislative scrutiny of budgets	X	X	
<b>Pillar V: Predictability and control in budget execution.</b> The budget is implemented within a system of effective standards, processes, and internal controls, ensuring that resources are obtained and used as intended.			
PI-19. Revenue administration	Strength: The RGoB's budget framework, and thus the ability to maintain fiscal discipline, is supported by the well-functioning revenue administration, including revenue accounting. <u>Weakness:</u> The absence of a system for monitoring expenditure arrears could result in commitments not being controlled or obligations due not being paid, which would undermine fiscal discipline. <u>Strength:</u> Internal controls on non-salary expenditure are effective, which helps to ensure that	Strength: Predictability in the revenue collection helps to ensure that budgetary bodies receive the resources allocated in the budget, and hence can implement activities as prioritized. <u>Weakness:</u> The absence of a system of annual payroll audits could mean that issues such as unmet salary obligations, which undermine allocative efficiency, is not detected. <u>Strength:</u> The well-functioning internal audit function provides assurance that the	Strength: The predictability in in-year resource availability supports efficient delivery of services by budgetary bodies. <u>Strength:</u> The procurement system of the RGoB is relatively well-functioning, which supports the efficiency of service delivery by ensuring better value-for-money. <u>Strength:</u> The internal audit function helps to identify weaknesses and inefficiencies in internal controls.
PI-20. Accounting for revenues		X	X
PI-21. Predictability of in-year resource allocation	X		X
PI-22. Expenditure arrears	X		
PI-23. Payroll controls			X
PI-24. Procurement			X

Indicator/dimension	Aggregate fiscal discipline	Strategic allocation of resources	Efficient service delivery
<b>PI-25. Internal controls on non-salary expenditure</b>	X resources are used in accordance with approved allocations. <u>Strength:</u> Effective expenditure and payroll controls ensure resources are used in accordance with approved allocations.	PFM system operates to achieve RGoB's objectives efficiently and effectively.	X
<b>PI-26. Internal audit</b>			X
<b>Pillar VI: Accounting and reporting.</b> Accurate and reliable records are maintained, and information is produced and disseminated at appropriate times to meet decision-making, management, and reporting needs.			
<b>PI-27. Financial data integrity</b>	<u>Strength:</u> The relatively high level of financial data integrity helps to ensure that financial records are and reliable which, together with the availability of accurate quarterly budget performance reports helps to ensure that the RGoB's budgetary bodies execute the budgets as intended within the approved fiscal targets. <u>Weakness:</u> The quarterly budget performance reports are still not issued in a fully timely manner. Also, the AFS do not cover financial assets and liabilities, hence there is not a full picture of the extent to which fiscal discipline is fully adhered to.	<u>Strength:</u> The availability of reliable financial data in in-year and annual reports helps to ensure that the resources are allocated, as intended, to the RGoB's strategic priorities.	X
<b>PI-28. In-year budget reports</b>	X	X	X
<b>PI-29. Annual financial reports</b>			X
<b>Pillar VII: External scrutiny and audit.</b>			
<b>PI-30. External audit</b>	<u>Strength:</u> The external audit function as implemented by the RAA is comprehensive and effective, which also applies to Parliament's scrutiny of audit reports, which thus provides assurance that information in financial reports is accurate.	<u>Strength:</u> The RAA's audits, as documented in the AARs, help to ensure the accountability of the RGoB in allocating resources in accordance with the approved annual budget.	X
<b>PI-31. Legislative scrutiny of audit reports</b>			X
			<u>Strength:</u> The RAA's financial, performance and compliance audits are important in helping to identify inefficiencies in programs implemented and service delivery provided by the RGoB's budgetary bodies.

#### 4.4 Performance Changes since the 2016 PEFA PFM Assessment

4.45. The overall score for the RGoB’s PFM performance in 2022 averages close to a “B”, which is similar to the 2016 PEFA assessment. The distribution of PI scores is shown below.

**Figure 4.1: PI-level scores in the 2016 and 2022 PEFA assessments**



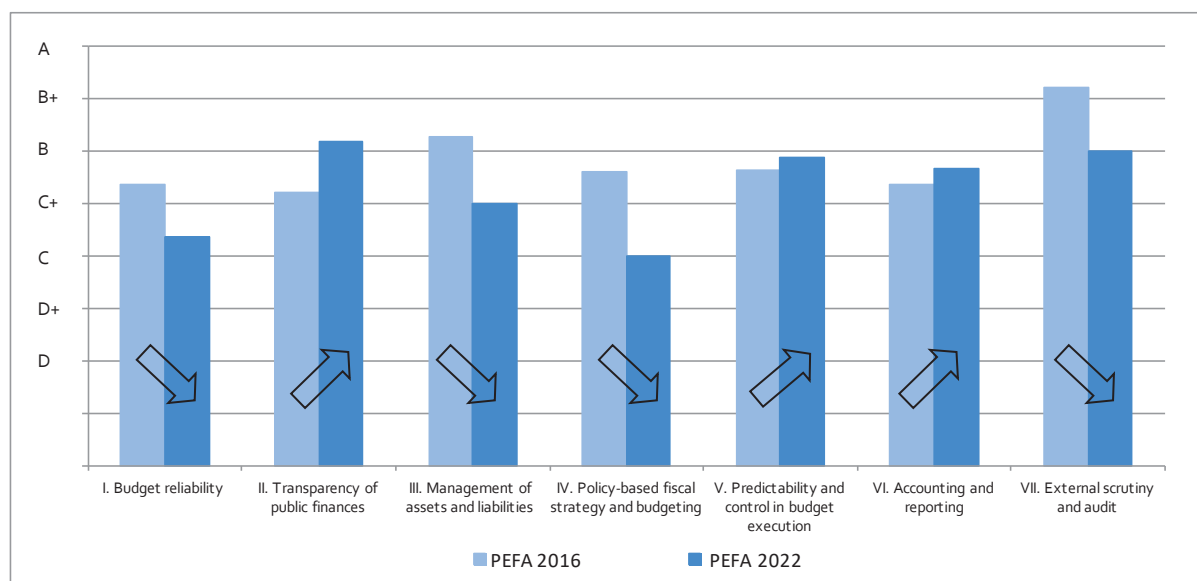
4.46. The number of “A” and “B” scores remains unchanged at 5 each. The number of “B” scores has decreased from 7 to 5. The number of “C+” scores has decreased notably from 8 to 5, while the number of “C” scores has increased from 0 to 5. The number of “D+” scores has increased from 3 to 4, and the number of “D” scores remains unchanged at 2. There was no “NA” rating in 2022 since PI-7 was assessed as well as scored in 2022.

4.47. At the level of the individual PIs, the scores remained unchanged (i.e., performance was maintained) for 9 PIs, while they increased for 9 PIs and decreased for 12 PIs. At the level of the specific dimensions, the scores remained unchanged (i.e., performance was maintained) for 47 dimensions, while they increased for 21 dimensions and decreased for 23 dimensions. Three dimensions (PI-7.1, PI-7.2 and PI-10.2) were not scored in 2016.

4.48. The figure below shows the performance changes at the pillar-level.



**Figure 4.2: Pillar-level scores in the 2016 and 2022 PEFA assessments**



4.49. The scores of three pillars – ‘Transparency of public finances’, ‘Predictability and control in budget execution’ and ‘Accounting and reporting’ – improved. This was a result of improved financial reporting by EBUs, increased performance information for service delivery, better public access to fiscal information, more frequent revenue account reconciliation, strengthened internal audit, more frequent advance account reconciliation, and more timely preparation and submission of the AFS.

4.50. The scores of four pillars decreased, mainly for ‘Policy-based fiscal strategy and budgeting’ and ‘Management of assets and liabilities’, but also for ‘Budget reliability’ and ‘External scrutiny and audit’. This was in some cases directly caused by the COVID-19 pandemic, which necessitated changes to spending plans and delayed reporting by PCs. Other reasons were that the RGoB’s FYP period comes to an end in 2022, hence the National Budget Report for FY 2022/23 did not include fiscal forecasts and medium-term expenditure estimates for the outer years, and that the PEFA Secretariat’s Fieldguide, which was not available in 2016, provides more granular scoring guidance (in relation to PI-11, PI-12 and PI-16). The fact that LGs in 2022, unlike in 2016, are deemed to be a separate level of government, and that PI-7 and PI-10.2 have therefore been scored also explains some of the changes in scores. There has not been an actual decline in the RGoB’s PFM performance.

# 5. GOVERNMENT PFM REFORM PROCESS

## 5.1 Approach to PFM Reforms

5.1. Bhutan has achieved tremendous socioeconomic progress since the start of the first five-year plan in 1961. Today, after six decades, Bhutan in 2023 is expected to graduate out of the least developed country (LDC) category. Such stellar socioeconomic progress has been possible due to the far-sighted leadership of the country's successive monarchs. In addition, the support of bilateral and multilateral development partners also played a crucial role in the country's progress.

5.2. Bhutan, in its pursuit of its vision of achieving the status of 'A Developed Bhutan', is firmly committed to a Good Governance agenda. Strengthening the PFM is a critical component of good governance, and the RGoB places a strong priority on this as part of its governance agenda.

5.3. The 12<sup>th</sup> FYP included four PFM-related programs: (i) Strengthening Macroeconomic Coordination (MoF); (ii) Strengthening Fiscal Sustainability (MoF); (iii) Strengthening Public Financial Management (MoF); and, (iv) Improve Public Sector Performance through Auditing (RAA). The MoF-led programs contributed towards achieving NKRA 1 (macroeconomic stability) and 2 (economic diversification), while the RAA-led program contributed towards achieving NKRA 12 (corruption reduced).

5.4. His Majesty the King in the successive Royal Addresses during the National Day has emphasized the need for strengthening the economy. During the 112<sup>th</sup> National Day in 2019, the King said *"The government, lawmakers, the private sector, the people, and experts in various fields must work collectively to chart out a clear economic roadmap for the 21<sup>st</sup> Century- this will help every individual and entity to understand their respective roles and work towards a common national objective"*. During the 114<sup>th</sup> National Day in 2021, the King said *"We must pre-empt these profound developments by restructuring the budget process, financial norms and procurement systems to fast-track our transition to a knowledge-based and tech-driven economy"*.

5.5. Accordingly, the messages in the Royal Addresses as well as gaps and potential areas identified in the 2022 PEFA assessment may be applied as inputs for policy formulation and to prepare interventions to further strengthen PFM to enhance the macroeconomic situation so as to achieve national objectives.

5.6. Bhutan has been undertaking PFM reforms for over two decades, starting from 2010, and has used the PEFA framework as a core diagnostic based on which a reform strategy and action plan was developed that was systematically implemented. Accordingly, the 2010 PEFA assessment led to the RGoB's 'Public Financial Management Reform Program 2012-2018'. Based on the findings of the 2016 PEFA assessment, the RGoB developed and implemented the 'Public Financial Management Reform Strategy 2017-2021' and 'PFM Reform Action Plan 2017-2021' (Annex 4) to strengthen the PFM framework and thus improve the quality of public expenditure. The PPD, as the central coordinating agency in the MoF, spearheads the reform strategy.

5.7. The PFM Reform Strategy 2017-2021 was developed based on a 'basics first' principle so as to be able to undertake adequate sequencing. Chapter 4 of the Strategy discussed the need for the RGoB's PFM reforms to be suitably sequenced in accordance with its economic and developmental priorities, and that reform actions should focus on firstly putting in place controls to ensure a minimal level of financial compliance (fiscal control), secondly establishing mechanisms to improve fiscal stability and sustainability, and thirdly introducing systems to promote efficiency and effectiveness in service delivery. The Strategy also noted the need to establish an adequate IT system as the basis for advancing reforms. Accordingly, the RGoB has initiated major fiscal reforms in the field of Taxation, Expenditure, Procurement and Financing, which are described in Section 5.2.

### **5.2 Recent and On-going PFM Reform Actions**

5.8. **On the revenue front**, reforms include the proposed implementation of goods and services tax (GST) where the development of the Bhutan Integrated Taxation System (BITS) was the major component. With the deferment of the implementation of the GST, the MoF prioritized the introduction of the Bhutan Integrated Revenue Management System (BIRMS). To strengthen revenue mobilization by preventing revenue leakages, the Revenue Intelligence Division (RID) in the DRC was established in 2017. To ensure that key economic sectors receive necessary support, the Government enacted the Fiscal Incentives Act 2021. To safeguard the carbon neutrality of the country, the Government has enacted the Tax Amendment Act 2020 to grant waiver of taxes to electric and hybrid vehicles. The Act was also enacted to grant tax waivers to digital technologies and mobile devices to encourage digitalization. To enhance tax revenues and ensure the tax principle of equity and justice, the Government in 2021 started work to introduce a value-based Property Tax. To enhance customs management, the Government has reached an advanced stage in the implementation of the electronic Customs Management System (e-CMS) which, for efficient resource mobilization, will be integrated with the BIRMS.

5.9. **On the expenditure front**, the Government has carried out an assessment on the existing planning and budgeting system, and conducted a study on adoption of a rolling budget. The Government has initiated public investment management reforms to ensure value-for-money by investing in the most productive activities for which a diagnostic report with a road map has been prepared. The Government is also reviewing the traditional FYP structure versus a multi-year rolling budget. Internal audit has been further strengthened through performance audits as well as internal and external quality assessments. For strengthening payroll controls, interlinking personnel records (ZES) with the payroll system (GPS, which is a module in e-PEMS) is underway. Commitment control system is being implemented to improve the budgeting process and expenditure out-turn.

5.10. The Government is in the process of updating the CoA in line with the GFSM 2014. The accounting framework is being strengthened by adopting the IPSAS and aligning the AFS with the international standards. In-year budget reports are now prepared and published.

5.11. In the area of procurement, the Government has implemented various reforms of the PRR 2019 to ease implementation. During the COVID-19 pandemic, the abridged version of the PRR, termed the Simplified PRR, was rolled out through the budgetary bodies. Phase III of

the e-GP will be implemented in FY 2022/23. The aim is ultimately to digitize the PRR 2019. A strategic procurement system involving centralized procurement, pooled procurement, rental/lease procurement and framework contracts, with focus on health sector- and works-related procurement, will be implemented. The DPP has also developed and implemented the GIMS across budgetary bodies to record non-financial assets.

5.12. The Government in 2017 rolled out e-PEMS with assistance from the PFM MDF. A roadmap for an integrated financial management information system (IFMIS) is proposed to be developed during the current fiscal year.

5.13. The GPMS will be integrated with the budgeting system to ensure implementation and accountable expenditure management. The APA of the budgetary bodies will be made accessible to the public.

5.14. It is noted that the PFM system is most supportive in efficient service delivery mainly to LGs, and it is seen that there is an absence of sound public investment management (PI-11), medium-term budgets diverge from entity-level strategic plans (PI-2), and there is a lack of integration of payroll and personnel records (PI-23.1), which adversely affect overall service delivery. It is also seen that the identified PFM performance under certain pillars is at basic levels and that there for some indicators and dimensions have been decreases since the 2016 PEFA assessment.

5.15. **On the financing front**, the Government has conceptualized a Public Financing Policy. The Policy aims to ensure transparent and efficient financing to promote sustainable socioeconomic development. To achieve the policy objective, the Government shall raise financing mainly for investments in projects and programs that are economically, financially, and socially viable while strictly safeguarding the public debt sustainability.

5.16. The Public Financing Policy will subsume all the existing fiscal policies, including the Public Debt Policy 2016, Public Private Partnership Policy 2017, Economic Development Policy 2015, and the External Commercial Borrowing 2019.

5.17. The current transformation initiatives in the civil service is, *inter alia*, expected to enhance resource mobilization by consolidating grant mobilization by integrating the GNHC's Development Cooperation Division with the MoF's former Department of Macroeconomic Affairs where it will become the Development Cooperation Division (DCD) of the DMDF.

5.18. Given that the government is the primary controller of public resources, the RGoB has made significant progress in PFM over the years, which has covered budget preparation, budget execution, internal control, financial reporting, and supervision. The EFC has strengthened legislative scrutiny of the budget approval process, while the PAC has expanded legislative oversight of audit reports. The public, like in other countries, has become more demanding of transparent and efficient administration. With all strategic documents emphasizing good governance, it is apparent that PFM in Bhutan is being consistently strengthened.

### **5.3 Institutional Considerations**

5.19. **Government leadership and ownership:** The RGoB at highest level remains committed to good governance, and PFM is an integral part. PFM reforms are being owned and implemented by the Parliament, the RAA, and the executive. To enhance PFM reform implementation, Public Financial Management-Governance Group (PFM-GG), comprising the Heads of the Departments as member and Finance Secretary as the chair, has been in place since 2013. A technical PFM-GG Committee assists the PFM-GG. The MoF's PPD acts as secretariat to the PFM-GG, and coordinates the 2022 PEFA assessments.

5.20. **Coordination across government:** The PFM-GG, supported by the PPD, is managing and coordinating the PFM reform across the RGoB. While Bhutan achieved reasonable results on several categories in the 2022 PEFA assessment, there are still areas that require more improvement. Strengthening PFM is a constant process and the RGoB is committed to moving the reform agenda forward. After the ongoing 2022 PEFA assessment is completed, a new PFM reform strategy will be prepared. Various departments within MoF lead and implement reforms applicable to their respective areas. The reforms are included in APA of the departments and the officials concerned. Parliamentarians continue to be an important stakeholder in the PFM reform agenda. Bhutan's PAC is one of the most active in the region, highlighting major concerns in parliament and with government authorities. With strong commitment and support from the highest level, Bhutan is making steady progress in PFM.

5.21. **A sustainable reform process:** Sustained reform impetus necessitates institutionalization of PFM reforms within the government and continuous resources and cooperative efforts on the part of the RGoB supported by development partners. The RGoB has systematically built its staff capacity with several reform efforts being implemented by its own officials and minimizing the use of consultants. This has additionally enhanced the ownership of reforms in relevant unit. While development partners have continued to provide financial and technical support, the RGoB has funded the salaries of all officials working on PFM reform from its own resources.

5.22. **Transparency of the PFM program:** As noted above in Chapter 4, the RGoB's performance under Pillar II 'Transparency of Public Finances' is sound and well in line with many elements of good international practices. There has been a significant improvement in this pillar since the 2016 PEFA assessment. Recently, the MoF on its website has created a page on PFM reform. All key documents relating to PFM reform are available in the public domain, including the PFM Reform Strategy 2017-2021. All PFM expenditure, including those on PFM MDF-financed Strengthening PFM Project, are budgeted and spent through the RGoB's existing systems and all procurement processes are undertaken in a very transparent manner.

# ANNEX 1: PERFORMANCE INDICATOR SUMMARY

This annex summarizes the performance at indicator and dimension levels. The table below specifies the scores with a brief explanation for the scoring of each indicator and dimension of the 2022 PEFA PFM assessment.

**Table Annex 1.1: Performance indicator summary**

Pillar	Indicator/Dimension		2016 Scores	2022 Scores	Description of requirements met in 2022	Explanation of change (including comparability issues)
Budget Reliability	PI-1	Aggregate expenditure out-turn	A	B	Deviations for FY 2019/20-FY 2021/22 were 94%, 103%, 94%, respectively.	Deviations were larger for FY 2019/20-FY 2021/22 than for FY 2012/13-FY 2014/15 (106%, 96%, 98%, respectively).
	PI-2	Expenditure composition out-turn	C+	D+	-	See PI-2.2
		(i) Expenditure composition out-turn by function	C	C	Variance based on administrative classification was less than 15% in two of the last three years (FY 2019/20 and FY 2021/22).	-
		(ii) Expenditure composition out-turn by economic type	B	D	Variance based on economic classification was more than 15% in all of the last three years.	Variances notably larger for FY 2019/20-FY 2021/22 (25.5%-44.7%) compared to FY 2012/13-FY 2014/15 (4.9%- 10.5%).
		(iii) Expenditure from contingency reserves	A	A	Actual expenditure charged to contingency vote was nil in each year.	-
	PI-3	Revenue out-turn	D+	C	-	See PI-3.1
		(i) Aggregate revenue out-turn	C	B	Actual revenue was between 94% and 112% of budgeted revenue in each of the last three years.	Aggregate revenue out-turn improved primarily due to lower variation in external grants received by the RGoB.
		(ii) Revenue composition out-turn	D	D	Variance was more than 15% in each of the last three years.	-
Transparency of Public Finances	PI-4	Budget Classification	A	A	<b>Budget formulation, execution and reporting are based on every level of administrative, economic and functional classification using GFS / COFOG compliant classifications</b>	-
	PI-5	Budget Documentation	A	C	Budget documentation includes all four basic elements, and two out of eight of the additional elements (5. Deficit financing, and 7. Debt stock).	Four additional elements were not included in the National Budget Report for FY 2022/23: (9) Summary information on fiscal risks; (10) Estimates of all major policy, changes and changes to expenditure programs; (11) Medium-term fiscal forecasts; and, (12) Quantification of tax expenditures.

Pillar	Indicator/Dimension	2016 Scores	2022 Scores	Description of requirements met in 2022	Explanation of change (including comparability issues)	
	Central government operations outside financial reports	C+	B	-	See PI-6.3	
	PI-6	(i) Expenditure outside financial reports	B	B	Expenditure outside RGoB financial reports was 1.5% of total Budgetary Central Government (BCG) expenditure for FY 2021/22.	-
	(ii) Revenue outside financial reports	B	B	Revenue outside RGoB financial reports was 2.5% of total BCG revenue for FY 2021/22.	-	
	(iii) Financial reports of extra-budgetary units	D	B	Detailed financial reports of all extra-budgetary units are submitted to the MoF within six months of fiscal year-end.	Submission of financial reports by extra-budgetary units to the RGoB has improved.	
	PI-7	Transfers to subnational governments	NA	A	-	<b>In 2016, LGs were not considered sub-national governments (SNGs). Based on the latest PEFA definition, LGs now are deemed to be SNGs. Accordingly, PI-7 has therefore been assessed <i>and</i> scored this time.</b>
	(i) System for allocating transfers	NA	A	The horizontal allocation of all transfers from the RGoB to LGs is determined by transparent and rules-based systems.		
	(ii) Timeliness of information on transfers	NA	A	The LGs receive information on their annual transfers through the Budget Call Circular with clear guidelines on how to prepare their budget. The guidelines provide clear and sufficiently detailed information to allow at least six weeks for the LGs to complete their budget planning on time.		
	PI-8	Performance information for service delivery	D+	C+	-	See PI-8.1, 8.3 and 8.4
	(i) Performance plans for service delivery	C	B	Information is published annually on policy or program objectives, KPIs, and planned outputs or outcomes for most ministries, and are determined in line with a defined performance management system.	APAs are now published.	
	(ii) Performance achieved for service delivery	D	D	The quantity of output produced, or outcome achieved, or activity performed is evaluated in accordance with the defined framework, but information on actual achievements is not published.	-	



Pillar	Indicator/Dimension	2016 Scores	2022 Scores	Description of requirements met in 2022	Explanation of change (including comparability issues)
	(iii) Resources received by service delivery units	C	A	Information on resources received by SDUs is recorded for all ministries in the e-PEMS, identified by source of funds. Reports compiling the data can be prepared as required.	Report compiling information on resources to SDUs now available real-time (MYRB/e-PEMS).
	(iv) Performance evaluation for service delivery	D	C	The RAA has conducted independent evaluations in the form of performance audits on the efficiency and effectiveness of service delivery for some (four) ministries during the last three years.	The RAA has conducted four relevant performance audits during the last three years.
	PI-9 Public access to information	D	B	Five basic elements and two additional elements (7. Other external audit reports, and 8. Summary of the budget proposal) are made available to the public.	The RGoB now publishes the National Budget Report, quarterly Budget Performance Reports, and AFS in a more timely manner. However, the National Budget Report for FY 2022/23 does not show the interest rate and exchange rate assumptions underlying macroeconomic forecasts.
Management of assets and liabilities	Fiscal risk reporting	A	C	-	See PI-10.1 and 10.2
	(i) Monitoring of public corporations	A	D	Some PCs publish their audited financial statements, but with delay, including in submitting them to the MoF.	Only some PCs publish their audited AFS and submit it to the MoF, but often with delay.
	(ii) Monitoring of sub-national government (SNG)	NA	D	Separate financial reports or audited financial statements for LGs are not published. A consolidated report on the financial position of all LGs is published annually as part of the RAA's annual report.	See PI-7 above. Annual financial reports of LGs are not published.
	(iii) Contingent liabilities and other fiscal risks	A	A	All significant contingent liabilities and other fiscal risks are reported in the RGoB's AFS.	-
	Public investment management	C+	D+	-	See PI-11.1, 11.2, 11.3 and 11.4
PI-11	(i) Economic analysis of investment proposals	C	D	Implementing agencies prepare Detailed Project Reports (DPRs) or Initial Project Documents (IPDs), and also detailed feasibility studies. Economic-analyses are not systematically done, except for development partner-financed projects.	Situation unchanged, however PEFA score revised reflecting on detailed guidance available through PEFA Fieldguide.

Pillar	Indicator/Dimension	2016 Scores	2022 Scores	Description of requirements met in 2022	Explanation of change (including comparability issues)
	(ii) Investment project selection	A	C	The RGoB's Flagship Program Guidelines include selection criteria as have some new major investment projects. Prior to inclusion in the budget, some major investment projects are prioritized by the GNHC based on published standard criteria.	Situation unchanged, however PEFA score revised reflecting on detailed guidance available through PEFA Fieldguide. Also, there are now fewer development partner-financed major investment projects than in 2016.
	(iii) Investment project costing	C	D	Projections of total capital cost of major investment projects, together with a year-by-year breakdown of capital costs and estimates of recurrent costs for the next three years, are available at the aggregate level, but not project-wise. Budget documents only contain capital costs for the next year.	Situation unchanged, however PEFA score revised reflecting on detailed guidance available through PEFA Fieldguide. Also, fewer flagship programs qualify as major investment projects in 2022 as compared to 2016.
	(iv) Investment project monitoring	C	B	There are many rules, regulations and guidelines for implementing projects. Monitoring is done at three levels. Monthly and quarterly progress reports are prepared. Agencies monitor total costs and physical progress of projects regularly. Information on major investment projects is published annually.	Increase in transparency.
	<b>Public asset management</b>	<b>B</b>	<b>C+</b>	-	<b>See PI-12.3</b>
	(i) Financial asset monitoring	B	B	The RGoB maintains a record of its holdings in major categories of financial assets, which are mostly recognized at fair value or acquisition cost. Information on the performance of major categories of financial assets is published in the RMA's annual report.	-
	(ii) Non-financial asset monitoring	C	C	The DPP is implementing the Government Inventory Management System (GIMS) with records of non-financial assets, including information on office equipment and inventories. It includes information on usage and age of holdings.	-
	<b>PI-12</b>				

Pillar	Indicator/Dimension	2016 Scores	2022 Scores	Description of requirements met in 2022	Explanation of change (including comparability issues)
	(iii) Transparency of asset disposal	A	C	Procedures and rules for the transfer and disposal of all assets are established. This includes rules on the transfer and disposal of financial and non-financial assets. Information on transfers and disposals is included in the AFS presented to Parliament.	The PEFA Fieldguide (2018) provides more granular guidance of the scoring criteria, which was not available at the time of the 2016 assessment.
	<b>Debt management</b>	<b>B</b>	<b>A</b>	-	<b>See PI-13.3</b>
	(i) Recording and reporting of debt and guarantees	A	A	Domestic, external debt, and guaranteed debt records are complete, accurate, updated, and reconciled monthly. A comprehensive portfolio analysis covering debt stock, debt service, and operations is produced and published quarterly.	-
	(ii) Approval of debt and guarantees	A	A	The PFA 2007 grants authorization to borrow and issue new debt and loan guarantees to the Finance Minister, subject to approval by the Cabinet. It is made against documented transparent criteria and fiscal targets.	-
	(iii) Debt management strategy	D	A	A MTDS is in place. It covers existing and projected government debt, and includes target ranges for relevant indicators. Annual reporting against debt management objectives is provided to Parliament. The RGoB's annual plan for borrowing is consistent with the MTDS.	The RGoB has developed and published a MTDS.
Policy-based fiscal strategy and budgeting	<b>Macroeconomic and fiscal forecasting</b>	<b>B</b>	<b>C</b>	-	<b>See PI-14.1 and 14.2</b>
	PI-14 (i) Macroeconomic forecasts	A	C	The MFCTC prepares three-year forecasts for selected macroeconomic indicators which, together with some underlying assumptions, are included in the National Budget Reports.	The National Budget Report for FY 2022/23 does not show the interest rate and exchange rate assumptions underlying macroeconomic forecasts. This was incorrectly assessed in 2016 (i.e., should have been scored "D", hence no actual change to 2022).

Pillar	Indicator/Dimension	2016 Scores	2022 Scores	Description of requirements met in 2022	Explanation of change (including comparability issues)
	(ii) Fiscal forecasts	B	C	The forecast for fiscal indicators is prepared by the MFCTC, but the forecast for the next two years is not included in the National Budget Report for FY 2022/23. It also does not include an explanation of the main differences from the forecasts made in the previous year's budget.	The National Budget Report for FY 2022/23 did not include a fiscal forecast and underlying assumptions for the next two fiscal years.
	(iii) Macro-fiscal sensitivity analysis	C	C	The RGoB prepares, for its own use, a range of fiscal forecast scenarios. The National Budget Report includes discussions of macroeconomic risks, but not forecast sensitivities.	-
	<b>Fiscal strategy</b>	<b>B</b>	<b>D+</b>	-	<b>See PI-15.1 and 15.2</b>
	(i) Fiscal impact of policy proposals	B	D	The fiscal impact of policies passed by Parliament is captured in revenue and expenditure projections of the current fiscal year.	Fiscal impact studies now developed only for some proposed revenue and expenditure policy changes, which are not submitted to Parliament.
	(ii) Fiscal strategy adoption	C	D	The RGoB has adopted and submitted to Parliament a fiscal strategy, but the fiscal deficit target was not considered when drafting the FY 2022/23 budget.	The proposed fiscal deficit target was not reflected in the National Budget Report for FY 2022/23.
	(iii) Reporting on fiscal outcomes	B	B	The RGoB has submitted to Parliament a report that describes progress made against its fiscal strategy and explains reasons for deviations from the objectives and targets set.	-
	<b>Medium term perspective in expenditure budgeting</b>	<b>C+</b>	<b>D</b>	-	<b>See PI-16.1, 16.2, 16.3 and 16.4</b>
	(i) Medium-term expenditure estimates	C	D	The National Budget Report for FY 2022/23 presents expenditure estimates for the budget year by administrative, economic, and functional classification, but not for the following two years.	The National Budget report for FY 2022/23 does not include medium-term expenditure estimates.
	(ii) Medium-term expenditure ceilings	B	D	The RGoB approves aggregate expenditure ceilings for the budget year and for the two following years before the Budget Call Circular is issued, but ministry ceilings are approved for the budget year only. This was not captured in FY 2022/23.	FY 2022/23 entity-level ceilings were not captured in the National Budget Report due to the absence of the 13 <sup>th</sup> FYP.

Pillar	Indicator/Dimension	2016 Scores	2022 Scores	Description of requirements met in 2022	Explanation of change (including comparability issues)
	(iii) Alignment of strategic plans and medium-term budgets	C	D	Entity-level strategic plans are prepared as part of the FYPs. While medium-term budgets diverge from fixed strategic plans due to changing policies and priorities, a few expenditure policy proposals align with strategic plans.	The PEFA Fieldguide (2018) provides more granular guidance of the scoring criteria, which was not available at the time of the 2016 assessment.
	(iv) Consistency of budgets with previous year estimates	C	D	The budget documents provide an explanation of a few changes to expenditure estimates between the first year following the budget year of the previous medium-term budget and the estimate for the budget year of the new medium-term budget at the aggregate level.	The PEFA Fieldguide (2018) provides more granular guidance of the scoring criteria, which was not available at the time of the 2016 assessment.
	<b>Budget preparation process</b>	<b>B</b>	<b>C</b>	-	<b>See PI-17.2</b>
	(i) Budget calendar	A	A	A clear budget calendar exists and is substantially adhered to. It allows sufficient time to meaningfully complete the detailed estimates.	-
	(ii) Guidance on budget preparation	A	D	The Budget Call Circular for FY 2022/23 does not specify agency-wise or functional ceilings.	The Budget Call Circular for FY 2022/23 did not include ministry-level ceilings submitted to the Cabinet.
	(iii) Budget submission to the legislature	D	D	Current rules require the Finance Minister to present to Parliament the Budget Appropriation Bill no later than five days before the fiscal year starts. The RGoB has for the past three fiscal years submitted the budget to Parliament within one month for one year and within three weeks for two years.	-
	<b>Legislative scrutiny of budgets</b>	<b>C+</b>	<b>B+</b>	-	<b>See PI-18.1, 18.2 and 18.3</b>
	(i) Scope of budget scrutiny	C	B	The review of the FY 2021/22 budget included fiscal policies and aggregates for the coming years as well as details of expenditure and revenue except for medium-term priorities.	The scope of Parliament's annual budget scrutiny has broadened.
	(ii) Legislative procedures for budget scrutiny	C	B	Parliament's procedures for annual budget review are established and adhered to. They include internal organizational arrangements.	The procedures for Parliament's annual budget scrutiny now include internal organization arrangements.

Pillar	Indicator/Dimension	2016 Scores	2022 Scores	Description of requirements met in 2022	Explanation of change (including comparability issues)
	(iii) Timing of budget approval	C	A	Parliament approved the annual budget before the start of the fiscal year for the last three years.	Parliament approved the last three budgets before the fiscal year start.
	(iv) Rules for budget adjustments by the executive	A	A	The FRR 2016 provides clear and strict rules for in-year budget adjustments by the executive, which are adhered to in all instances.	-
Predictability and control in budget execution	<b>Revenue administration</b>	<b>B+</b>	<b>B+</b>	-	-
	(i) Rights and obligations for revenue measures	B	A	The DRC provides taxpayers with comprehensive information on revenue obligations and rights, including rights of redress.	The DRC now collects most of the revenues.
	(ii) Revenue risk management	B	B	The DRC uses a structured and systematic approach for assessing and prioritizing compliance risks for some categories of revenue, including for large revenue payers.	-
	(iii) Revenue audit and investigation	A	A	The DRC undertakes audits and fraud investigations, managed and reported according to a documented compliance improvement plan, and completes all planned audits and investigations.	-
	(iv) Revenue arrears monitoring	A	B	The stock of revenue arrears at end-FY 2021/22 is calculated at 15.2% of total revenue collected for the year. All arrears are less than one year old.	Tax arrears data on sales tax not available.
	<b>Accounting for revenues</b>	<b>B+</b>	<b>A</b>	-	<b>See PI-20.3</b>
	(i) Information on revenue collections	A	A	Information on revenue collection is reported monthly to the MoF and is consolidated into a report.	-
	(ii) Transfer of revenue collections	A	A	Transfers to the Treasury are made daily.	-
	(iii) Revenue accounts reconciliation	B	A	Complete reconciliation of assessments, collections, arrears, and transfers to the Treasury is made daily, monthly and quarterly within a week of end of period.	The DRC now undertakes revenue account reconciliation on a daily and quarterly basis within a week of quarter-end.
	<b>Predictability of in-year resource allocation</b>	<b>B+</b>	<b>B</b>	-	<b>See PI-21.1 and 21.2</b>
	(i) Consolidation of cash balances	B	D	The balances in the TSA are consolidated daily, but balances outside the TSA that are not consolidated.	Only 55% of bank balances are consolidated in the Government CFA.
	(ii) Cash forecasting and monitoring	B	C	A cash flow forecast is prepared for the fiscal year and updated monthly, but not based on actual cash inflows and outflows.	Cash forecasts are not updated based on actual inflows and outflows now.

Pillar	Indicator/Dimension	2016 Scores	2022 Scores	Description of requirements met in 2022	Explanation of change (including comparability issues)
	(iii) Information on commitment ceilings	A	A	Budgetary bodies are able to plan and commit expenditure for at least six months in advance in accordance with budgeted appropriations and cash / commitment releases.	-
	(iv) Significance of in-year budget adjustments	A	A	In-year changes to budget allocations are not significant, take place only once a year above the level of the budgetary bodies, and are transparent and predictable.	-
	<b>Expenditure arrears</b>	<b>D</b>	<b>D</b>	-	-
	(i) Stock of expenditure arrears	D*	D*	There are no arrears on debt servicing and salaries, but for works, goods and services the status is not known by the MoF.	-
	(ii) Expenditure arrears monitoring	D	D	Debt is monitored centrally and salary through the GPS, but there is no system for recording arrears for works, goods and services.	-
	<b>Payroll controls</b>	<b>D+</b>	<b>D+</b>	-	-
	(i) Integration of payroll and personnel records	D	D	Payroll and personnel records are not integrated, and periodic reconciliation between the two records is not undertaken.	-
	(ii) Management of payroll changes	A	A	Changes to personnel records and payroll are updated monthly. Retroactive adjustments are less than 1% of the salary expense.	-
	(iii) Internal control of payroll	D	C	Sufficient controls exist to ensure integrity of the payroll data of greatest importance.	The RGoB has transitioned from CSIS to ZEst, and has created the GPS as a separate payroll system / module in e-PEMS.
	(iv) Payroll audit	C	C	There is no system of annual payroll audits, but partial payroll audits and reviews have been undertaken within the last three fiscal years.	-
	<b>Procurement</b>	<b>B</b>	<b>B</b>	-	-



Pillar	Indicator/Dimension	2016 Scores	2022 Scores	Description of requirements met in 2022	Explanation of change (including comparability issues)	
	PI-24	(i) Procurement monitoring	C	C	About one-third of procurement is carried out through the electronic government procurement (e-GP) system. For the balance, procurement records are maintained at the agency-level. Records are accurate and complete for a majority of transactions with data on what has been procured, value of procurement, and who has been awarded contracts.	-
		(ii) Procurement methods	B	B	As per the PRR 2019, the basic method of procurement is open tender. It comprises more than 76% of total value of all contracts (e-GP and manually) awarded during FY 2021/22.	-
		(iii) Public access to procurement information	B	B	All key procurement information for national procurement is publicly available, except for annual procurement statistics.	-
		(iv) Procurement complaints management	A	A	The complaint resolution system meets all criteria.	-
	PI-25	Internal controls on non-salary expenditure	A	A	-	-
		(i) Segregation of duties	A	B	Segregation of duties is prescribed across the expenditure process, and responsibilities are clear for most key steps.	The RAA recently identified some issues regarding lack of segregation of duties.
		(ii) Effectiveness of expenditure commitment controls	A	A	Comprehensive expenditure commitment controls effectively limit commitments to projected cash availability and approved budgets.	-
		(iii) Compliance with payment rules and procedures	A	A	All payments are compliant with regular payment procedures. All exceptions are properly authorized in advance and justified.	-
	PI-26	Internal audit effectiveness	C+	B+	-	See PI-26.2 and 26.4
		(i) Coverage of internal audit	B	B	Internal audit is operational for RGoB entities representing 82% of total budgeted expenditures, and RGoB entities collecting all budgeted revenue.	-
		(ii) Nature of audits and standards applied	C	B	Internal audit focuses on evaluating the adequacy and effectiveness of internal controls. Quality assurance is undertaken.	The nature of internal audit has shifted from financial compliance to evaluation of internal control system and risks.

Pillar	Indicator/Dimension	2016 Scores	2022 Scores	Description of requirements met in 2022	Explanation of change (including comparability issues)	
	(iii) Implementation of internal audits and reporting	A	A	During FY 2021/22, 92% of programmed audits were completed, as evidenced by distribution of reports to the appropriate parties.	-	
	(iv) Response to internal audits	C	B	Management provides a partial response to audit recommendations for most entities audited, within twelve months of the report being produced.	Management responses have improved.	
Accounting and Reporting	<b>Financial data integrity</b>	<b>B</b>	<b>B+</b>	-	<b>See PI-27.3 and 27.4</b>	
	(i) Bank account reconciliation	B	B	Bank reconciliation for all active RGoB bank accounts takes place at least monthly, usually within one week from month-end.	-	
	(ii) Suspense accounts	C	C	Reconciliation of suspense accounts takes place annually, within two months from year-end, and are cleared in a timely way.	-	
	(iii) Advance accounts	B	A	Reconciliation of advance accounts is done at least monthly, within one month. Accounts are cleared in a timely manner.	All advance accounts are now cleared in a timely manner.	
	(iv) Financial data integrity processes	B	A	Access and changes to records is restricted and recorded, and results in an audit trail. A team verifies financial data integrity.	The DTA has established a dedicated team to verify financial data integrity.	
	<b>PI-27</b>	<b>In-year budget reports</b>	<b>C+</b>	<b>C+</b>	-	-
		(i) Coverage and comparability of reports	B	A	Quarterly budget performance reports cover revenues, grants, loans and expenditures with budget-actuals comparisons, including for LG transfers.	Extended coverage and classifications of data allows direct comparison to the original budget, which is also made available to all the budgetary bodies.
	<b>PI-28</b>	(ii) Timing of in-year budget reports	C	C	The time for completing and issuing the quarterly budget performance reports varied during FY 2021/22 from about three weeks to almost five week.	-
		(iii) Accuracy of in-year budget reports	B	B	Data is extracted from the MYRB and e-PEMS systems, and is reliable and useful for analysis. Spending is captured at payment stage.	-
	<b>PI-29</b>	<b>Annual financial reports</b>	<b>C+</b>	<b>C+</b>	-	-
		(i) Completeness of annual financial reports	C	C	The annual AFS cover all budgetary bodies. They cover revenue, expenditure and cash balances, but not financial assets and liabilities.	-

Pillar	Indicator/Dimension	2016 Scores	2022 Scores	Description of requirements met in 2022	Explanation of change (including comparability issues)	
	(ii) Submission of reports for external audit	B	A	The AFS are submitted for external audit within three months of fiscal year-end.	The AFS are submitted by the MoF to the RAA within three months as the e-PEMS has expedited accounts reconciliation.	
	(iii) Accounting standards	C	C	The accounting standards are based on the legal framework, are disclosed in the AFS, and have been consistent over time.	-	
	<b>External audit</b>	<b>B+</b>	<b>C+</b>	-	<b>See PI-30.1, 30.2 and 30.4</b>	
External scrutiny and audit	PI-30	(i) Audit coverage and standards	B	A	Financial reports, including revenue, expenditure, assets and liabilities of all central government entities, have been audited using the International Standards of Supreme Audit Institutions (ISSAIs) during the last three completed fiscal years. The audits have highlighted relevant material issues and systemic and control risks.	In 2022, the AARs have been used as the basis for assessing the audit coverage.
		(ii) Submission of audit reports to the legislature	B	C	The AARs were submitted by the RAA to Parliament 7.8 months, 2.5 months and 2.5 months, respectively, after receipt from the MoF of the AFS for the last three fiscal years.	In one of the past three fiscal years, the AAR was submitted to Parliament after more than six months.
		(iii) External audit follow-up	A	A	There is clear evidence of effective and timely follow-up by the executive on audit findings and recommendations during the last three fiscal years.	-
		(iv) Supreme Audit Institution (SAI) independence	B	C	The RAA operates independently from the executive, ensured through the Constitution and the Audit Act, with respect to (i) procedures for appointment and removal of the Auditor General, (ii) planning of audit engagements, (iii) arrangements for publicizing reports, and (iv) execution of the RAA's budget. The RAA also has unrestricted and timely access to records, documentation and information. However, for budget approval the RAA follows the RGoB budgeting procedure and requests its budget through the MoF.	The RAA budget is routed through the MoF's DPBP.

Pillar	Indicator/Dimension	2016 Scores	2022 Scores	Description of requirements met in 2022	Explanation of change (including comparability issues)
	<b>Legislative scrutiny of audit reports</b>	<b>B+</b>	<b>B+</b>	-	-
	(i) Timing of audit report scrutiny	B	B	Parliament's scrutiny of the AARs was for the last three fiscal years completed within six months from receipt of the AARs.	-
	(ii) Hearings on audit findings	C	C	Parliament's PAC has undertaken hearings on key findings of audit reports that covered a few audited central government entities.	-
	(iii) Recommendations on audit by the legislature	A	A	In its review reports on the AARs, which are tabled in and deliberated on in Parliament, the PAC issues recommendations on actions to be implemented by the executive. Follow-up on implementation is undertaken systematically.	-
	(iv) Transparency of legislative scrutiny of audit reports	A	A	All hearings are held in public, and field visits are also carried out. The PAC's reports are tabled in joint sittings of Parliament. The reports are published.	-



# ANNEX 2: SUMMARY OF OBSERVATIONS ON THE INTERNAL CONTROL FRAMEWORK

Table Annex 2.1: Internal control framework

Internal Control Components and Elements	Summary of Observations
<b>1. Control environment</b>	
1.1 The personal and professional integrity and ethical values of management and staff, including a supportive attitude toward internal control constantly throughout the organization.	The ethical values embedded in the internal control framework are generally respected by management and staff, as evidenced by the responses to the RAA's audit reports, which are generally good, though not always as prompt as expected, there are comprehensive expenditure commitment controls and compliance to rules and regulations is high.
1.2 Commitment to competence	Commitment to competent performance is required by the Performance Management System, which includes regular monitoring and feedback of performance that fails to meet output targets. The RCSC manages the Civil Service Regulations, which are intended to ensure that only competent staff are appointed and that their performance meets their job descriptions and performance standards. Promotions and career progress of staff are also based on their performance.
1.3 The "tone at the top" (i.e. management's philosophy and operating style).	<p>The tone at the top has been set unequivocally by the Druk Gyalpo (King) <i>"Every individual must strive to be principled, And individuals in position of responsibility must even strive Harder"</i> (His Majesty the King); and <i>"It is the responsibility of every Bhutanese to act against corruption in our country"</i> (His Majesty the Fourth King). Also, the RGoB attaches great importance to the maintenance of a comprehensive set of rules for the management of public resources, and on their observance.</p> <p>The former is evidenced by the National Internal Control Framework (NICF),<sup>95</sup> PFA 2007,<sup>96</sup> internal audit standards (Manual, Charter, and Code of Ethics), FRR (comprising the FMM supported by the FAM, Budget Manual, and PMM). Compliance is strengthened by national pride in the uniqueness of this kingdom and strong centralized management, an effective Anti-Corruption Commission (ACC) and evidenced by RAA audit reports and Bhutan's high score on the Corruption Perception Index of Transparency International.<sup>97</sup></p>
1.4 Organizational structure.	There is a clear separation between operating and oversight functions. The CCA reports to the Finance Secretary administratively and to the high-level Committee of Secretaries

<sup>95</sup> The NICF, which is considered a 'steel frame of best practices', was developed with the overall goal to strengthen integrity, transparency, efficiency, effectiveness, participation, accountability and ethical behavior at all levels of management. All agencies of the RGoB (including government-owned institutions and corporations as well as autonomous agencies) are obliged to institute and institutionalize internal controls and to draw upon the country's laws, rules, regulations, procedures and policies.

<sup>96</sup> The Act seeks to regulate the financial management of the RGoB in order to promote the effective and efficient use of public resources, strengthen accountability and provide statutory authority and control for sound and sustainable fiscal policy.

<sup>97</sup> Bhutan scored 68 (out of 100) in the 2022 CPI.

	(CoS) in case of any disrespect or disregard of any internal audit functions and its recommendations thereof. Internal audit units report directly to the heads of the agencies in which they are established.
1.5 Human resource policies and practices.	Human resource management is decentralized to line agencies which implement rules set by the RCSC. For instance, heads of agencies ensure that the duties of staff are rotated so as to prevent the development of vested interests.
<b>2. Risk assessment</b>	
2.1 Risk identification.	The NICF makes ministries and other autonomous agencies responsible for identifying and evaluating risks at departmental, divisional and operating unit levels, and establishes policies, plans, procedures and systems to deal with risks and conduct a self-assessment of the five control components. Risks are identified in budget preparation: both revenue and expenditure are projected under multiple scenarios, such as the timing of hydroelectric power (HEP) project commissioning. The DMDF's ICGD and the DCDMD monitor risks arising out of operations of the public enterprises, debt and contingent liabilities, though there is no mention of public-private partnerships (PPPs). The DRC manages risks on taxpayer registration, assessment, collection and audit.
2.2 Risk assessment (significance and likelihood).	All identified risks are evaluated. The significance and likelihood of risk are distinguished in tax audit planning.
2.3 Risk evaluation.	
2.4 Risk appetite assessment.	No information available.
2.5 Responses to risk (transfer, tolerance, treatment or termination).	Implementing agency carries out the risk responses.
<b>3. Control activities</b>	
3.1 Authorization and approval procedure.	Budgets are classified (inter alia) by responsibility centre, so that accountability for both revenue and expenditure against approved budgets is established each year. Controls over expenditure are controlled through computerized systems.
3.2 Segregation of duties (authorizing, processing, recording, reviewing).	Responsibilities for authorization, processing, recording, and reviewing of transactions and custody of relevant assets are prescribed by the FRR, and the same is incorporated in the accounting and payment system (e-PEMS).
3.3 Controls over access to resources and records.	Procedural and system controls limit access to resources and records, in accordance with the PFA 2007 and FRR 2016
3.4 Verifications.	Accounting procedures include verifications and reconciliations, such as cash reconciliations with bank statements, debt balance reconciliations with creditors, and advance/suspense balance reconciliations with accountable officers. There is no regular reconciliation/verification of employee records with the payroll. However, the GPS – with adequate checks and controls – has been applied since 2019.
3.5 Reconciliations.	
3.6 Reviews of operating performance.	There are multiple monitoring and reviewing systems. Operations, processes, activities and performance are reviewed quarterly by the PMO against APAs, by the MoF against annual budgets, and by Cabinet Secretariat against the FYP in collaboration with the MoF. The GPMS has been reviewing physical and financial performance since FY 2013/14. There are mid-year reviews and annual progress reports.
3.7 Reviews of operations, processes and activities.	



	In addition, there is ex ante scrutiny of budgets and ex post scrutiny of accounts by Parliament.
3.8 Supervision (assigning, reviewing and approving, guidance and training).	Implementing entities have a dedicated focal official who is assigned to supervise the work. S/he regularly reviews the progress of the activity and reports to the management for approval if any.
<b>4. Information and communication</b>	Operational and financial information for managers are available through the computerized applications such as MYRB system, ePEMS, e-GP system, and RAMIS.
<b>5. Monitoring</b>	
5.1 On-going monitoring.	See 3.6 and 3.7 above.
5.2 Evaluations.	The GPMS has instituted a system of mid-year and year-end evaluation and assessment process. The RAA undertakes performance audits, but there is not yet a systematic and comprehensive evaluation function.
5.3 Management responses.	Accountable managers submit ATRs on recommendations by internal and external audit, though not always promptly. These reports are assessed and, if necessary, followed up by auditors and by the PAC.



# ANNEX 3: SOURCES OF INFORMATION BY INDICATOR

## Annex 3.A: Sources of information

**Table Annex 3.1: Related surveys and analytical work**

No.	Institution	Document Title	Year	Link
1	IIA Malaysia	External Quality Assurance Review of the CCA	2019	- [not published]
2	MoF	Public Debt Sustainability Analysis	2022	<a href="https://www.mof.gov.bt/wp-content/uploads/2022/03/PublicDebtSustainabilityAnalysisMarch2022.pdf">https://www.mof.gov.bt/wp-content/uploads/2022/03/PublicDebtSustainabilityAnalysisMarch2022.pdf</a>
3	RAA	Performance Audit Report on Road Maintenance Works – Department of Roads, Ministry of Works and Human Settlement	2019	<a href="https://www.bhutanaudit.gov.bt/wp-content/uploads/2020/08/Performance-Audit-on-Road-Maintenance-Eng.pdf">https://www.bhutanaudit.gov.bt/wp-content/uploads/2020/08/Performance-Audit-on-Road-Maintenance-Eng.pdf</a>
4	RAA	Performance Audit on Urban Planning and Development in Thimphu Throm	2019	<a href="https://www.bhutanaudit.gov.bt/wp-content/uploads/2020/08/Performance-Audit-on-Urban-Planning-Eng.pdf">https://www.bhutanaudit.gov.bt/wp-content/uploads/2020/08/Performance-Audit-on-Urban-Planning-Eng.pdf</a>
5	RAA	Review of Judiciary System and Practices	2019	- [not published]
6	RAA	SAI Performance Report	2021	<a href="https://www.bhutanaudit.gov.bt/wp-content/uploads/2021/05/RAAs-SAI-Performance-Report-2021.pdf">https://www.bhutanaudit.gov.bt/wp-content/uploads/2021/05/RAAs-SAI-Performance-Report-2021.pdf</a>
7	RAA	Performance Audit Report on Safe and Sustainable Road Transport System	2022	<a href="https://www.bhutanaudit.gov.bt/wp-content/uploads/2022/06/Performance-Audit-on-Safe-and-Sustainable-Road-Transport-System-English.pdf">https://www.bhutanaudit.gov.bt/wp-content/uploads/2022/06/Performance-Audit-on-Safe-and-Sustainable-Road-Transport-System-English.pdf</a>
8	RAA	Performance Audit Report on Farm Road Development & Management in Bhutan	2022	<a href="https://www.bhutanaudit.gov.bt/wp-content/uploads/2022/06/Performance-Audit-Report-on-Farm-Road-Development-Management-in-Bhutan-English.pdf">https://www.bhutanaudit.gov.bt/wp-content/uploads/2022/06/Performance-Audit-Report-on-Farm-Road-Development-Management-in-Bhutan-English.pdf</a>
9	RAA	Performance Audit Report on e-Public Expenditure Management System (ePEMS)	2022	<a href="https://www.bhutanaudit.gov.bt/wp-content/uploads/2022/06/Performance-Audit-of-e-PEMS.pdf">https://www.bhutanaudit.gov.bt/wp-content/uploads/2022/06/Performance-Audit-of-e-PEMS.pdf</a>
10	RGoB and World Bank	Public Financial Management Performance Report	2016	<a href="https://www.pefa.org/sites/pefa/files/assessments/reports/BU-Sep16-PFMPR-Public-with-PEFA-Check.pdf">https://www.pefa.org/sites/pefa/files/assessments/reports/BU-Sep16-PFMPR-Public-with-PEFA-Check.pdf</a>

### Annex 3.B: List of people interviewed

**Table Annex 3.2: List of people interviewed**

No.	Institution	Department	Person	Position
1.	MoF	-	Dasho Kesang Deki	Finance Secretary (Former)
2.	MoF	-	Dasho Leki Wangmo	Acting Finance Secretary
3.	Parliament	PAC	Dasho Phuntsho Rapten	Member of Parliament (National Council)
4.	Parliament	EFC	Dasho Ganesh Ghimiray	Member of Parliament (National Assembly)
5.	Parliament	EFC	Ms. Leki Dema	Committee Secretary
6.	Parliament	PAC	Mr. Tshering Wangchuk	Committee Secretary
7.	MoF	DTA	Mr. Tshering Dorji	Director
8.	MoF	DTA	Mr. Munesh Sharma,	Chief Finance Officer
9.	MoF	DTA	Mr. Lhab Tshering	Senior Finance Officer
10.	MoF	DTA	Mr. Kezang Jamtsho	Dy. Chief Finance Officer
11.	MoF	DTA	Ms. Dechen Choden	Dy. Chief Finance Officer
12.	MoF	DTA	Mr. Hemant Gurung	Senior Finance Officer
13.	MoF	DTA	Mr. Sonam Tobgay	Senior Finance Officer
14.	MoF	DPBP	Ms. Deki Wangmo	Director
15.	MoF	DPBP	Mr. Sonam Dorji	Dy. Chief Budget Officer
16.	MoF	DPBP	Ms. Tshewang Dem	Chief Budget Officer
17.	MoF	DPBP	Mr. Lengay Tshering	Budget Officer,
18.	MoF	DPBP	Ms. Kinley Zangmo	Budget Officer
19.	MoF	DMDF	Mr. Loday Tsheten	Director
20.	MoF	DMDF	Mr. Pema Wangdi	Statistical Officer
21.	MoF	DPP	Mr. Karma Wangdi	Chief Procurement Officer
22.	MoF	DPP	Ms. Dechen Wangmo	Senior Procurement Officer
23.	MoF	DPP	Ms. Tandin Gyem,	Executive Engineer
24.	MoF	DRC	Mr. Nidup Gyeltshen	Commissioner
25.	MoF	DRC	Ms. Pema Tshomo,	Assistant Commissioner
26.	MoF	PPD	Mr. Chencho Tshering	Chief Planning Officer
27.	MoF	PPD	Mr. Pema Tobgay	Senior Planning Officer
28.	MoF	PPD	Ms. Yeshe Dema	Assistant Planning Officer
29.	MoF	CCA	Mr. Kencho Dorji	Chief Internal Auditor
30.	MoF	IAU	Ms. Kinzang Uden	Internal Auditor
31.	Ministry of Home Affairs (MoHA)	Department of Local Governance and Disaster Management	Mr. Sonam Gyeltshen	Chief Program Officer
32.	RAA	Compliance and Outsourced Audit Division	Mr. Karma Jambayyang	Assistant Auditor General

No.	Institution	Department	Person	Position
33.	RAA	Performance Audit Division	Ms. Sonam Wangmo	Assistant Auditor General
34.	National Commission for Women and Child (NCWC)	Women Division	Ms. Tshewang Lhamo	Senior Program Officer
35.	National Environment Commission (NEC)	Climate Change Division	Mr. Chhimi Wangchuk	Environment Officer
36.	Bhutan Chamber of Commerce & Industry (BCCI)	-	Mr. Sangay Dorji	Secretary General
37.	BCCI	-	Mr. Chandra B. Chhetri	Dy. Secretary General
38.	BCCI	Research and Planning Division	Mr. Yeshe Dorji	Head
39.	GPMD	-	Mr. Namgay Wangchuk	Senior Program Officer
40.	GPMD	-	Mr. Dorji Wangchuk	Program Officer

### Annex 3.C: Sources of information used to extract evidence for scoring each indicator

**Table Annex 3.3: Sources of information used to extract evidence for scoring each indicator**

Indicator/dimension	Data Sources
<b>Budget reliability</b>	
<b>PI-1. Aggregate expenditure out-turn</b> 1.1. Aggregate expenditure out-turn	AFS and National Budget Reports/MYRB system.
<b>PI-2. Expenditure composition out-turn</b> 2.1. Expenditure composition out-turn by function 2.2. Expenditure composition out-turn by economic type 2.3. Expenditure from contingency reserves	AFS and National Budget Reports/MYRB system.
<b>PI-3. Revenue out-turn</b> 3.1. Aggregate revenue out-turn 3.2. Revenue composition out-turn	AFS and National Budget Reports/MYRB system. Unpublished revenue data provided by the DRC.
<b>Transparency of public finances</b>	
<b>PI-4. Budget classification</b> 4.1 Budget classification	FAM 2016, Appendix II (List of Accounting Objects). Annual GFS Questionnaire, Statistical tables. COFOG Classification Report. GFS Bridging Table. Bridging Table from the National Classification to GFSM2014 Code. AFS and National Budget Reports.
<b>PI-5. Budget documentation</b> 5.1 Budget documentation	National Budget Report for FY 2022/23.
<b>PI-6. Central government operations outside financial reports</b> 6.1. Expenditure outside financial reports 6.2. Revenue outside financial reports 6.3. Financial reports of extra-budgetary units	EBU expenditure and income data for FY 2021/22 provided by the MoF. FY 2020/21 annual reports of the Bhutan Health Trust Fund (BHTF) and the Bhutan Trust Fund for Environmental Conservation (BT FEC).
<b>PI-7. Transfers to subnational governments</b> 7.1. System for allocating transfers 7.2. Timeliness of information on transfers	National Budget Report for FY 2021/22 and MYRB system.
<b>PI-8. Performance information for service delivery</b> 8.1. Performance plans for service delivery 8.2. Performance achieved for service delivery 8.3. Resources received by service delivery units 8.4. Performance evaluation for service delivery	FY 2022/23 APAs for RGoB ministries. MYRB system. RAA performance audit reports: (i) Road Maintenance Works (FY 2019/20), Urban Planning and Development in Thimphu Thromde (FY 2019/20), Review of Judiciary System and Practices (FY 2019/20), Safe and Sustainable Road Transport System (FY 2021/22), and Farm Road Development and Management in Bhutan (FY 2021/22).
<b>PI-9. Public access to fiscal information</b> 9.1. Public access to fiscal information	National Budget Report for FY 2022/23. Budget-Speech for FY 2022/23. Budget Infographics for FY 2022/23. Budget Notification for FY 2022/23. Budget Appropriation Bill for FY 2022/23. Quarterly Budget Performance Reports for FY 2021/22. AFS 2021/22.

Indicator/dimension	Data Sources
	Quarterly Macroeconomic Situation Report for FY 2021/22. Quarterly Public Debt Situation Report for FY 2021/22. Budget Call Circular for FY 2022/23. AAR for FY 2020/21.
<b>Management of assets and liabilities</b>	
<b>PI-10. Fiscal risk reporting</b>	2020 or 2021 financial reports of PCs (as per Table 3.18).
10.1. Monitoring of public corporations	AAR for FY 2020/21.
10.2. Monitoring of sub-national government	AFS 2020/21.
10.3. Contingent liabilities and other fiscal risks	National Budget Report for FY 2022/23.
<b>PI-11. Public investment management</b>	List of major investment projects as provided by the MoF.
11.1. Economic analysis of investment proposals	GNHC Flagship Program Guidelines.
11.2. Investment project selection	National Budget Report for FY 2021/22.
11.3. Investment project costing	National Budget Report for FY 2022/23.
11.4. Investment project monitoring	Budget Manual 2016. PFA 2007, FRR 2001, PRR 2019, FRR 2016.
<b>PI-12. Public asset management</b>	List of categories of non-financial assets for 2020/21 as provided by the MoF.
12.1. Financial asset monitoring	PMM 2016.
12.2. Nonfinancial asset monitoring	RMA Act 2010.
12.3. Transparency of asset disposal.	AFS 2020/21 (Table 23 and Table 24). National Budget Report for FY 2022/23 (Section 4.71).
<b>PI-13. Debt management</b>	MTDS FY 2020/21-FY 2022/23 (March 2021).
13.1. Recording and reporting of debt and guarantees	Public Debt Sustainability Analysis (March 2022). Public Debt Situation Report for the Quarter Ended 30 June 2022.
13.2. Approval of debt and guarantees	National Budget Report for FY 2022/23.
13.3. Debt management strategy	Rules and Regulations for Issuance of Government Bond 2020.
<b>Policy-based fiscal strategy and budgeting</b>	
<b>PI-14. Macroeconomic and fiscal forecasting</b>	National Budget Report FYs 2020/21, 2021/22, 2022/23.
14.1. Macroeconomic forecasts	Budget-Speech FYs 2020/21, 2021/22, 2022/23.
14.2. Fiscal forecasts	Budget Infographics FYs 2020/21, 2021/22, 2022/23.
14.3. Macro-fiscal sensitivity analysis	Public Debt Sustainability Analysis (March 2022).
<b>PI-15. Fiscal strategy</b>	Tax (Amendment) Act 2020. Customs Duty Act 2021. Constitution 2008.
15.1. Fiscal impact of policy proposals	PFA 2007 (Section 7). Public Debt Policy 2016.
15.2. Fiscal strategy adoption	MTDS FY 2020/21-FY 2022/23 (March 2021). 12 <sup>th</sup> FYP (FY 2018-2023). National Budget Report for FY 2022/23.
15.3. Reporting on fiscal outcomes	Macroeconomic Framework Update (August 2022). Quarterly Macroeconomic Situation Report for FY 2021/22. Quarterly Budget Performance Reports for FY 2021/22.



Indicator/dimension	Data Sources
<b>PI-16. Medium-term perspective in expenditure budgeting</b>	National Budget Report for FY 2022/23. Budget Call Circular for FY 2022/23.
16.1. Medium-term expenditure estimates	
16.2. Medium-term expenditure ceilings	
16.3. Alignment of strategic plans and medium-term budgets	
16.4. Consistency of budgets with previous year's estimates	
<b>PI-17. Budget preparation process</b>	Budget Call Circular for FY 2022/23. Public Finance (Amendment) Act 2012. FRR 2016. National Budget Report for FYs 2020/21, 2021/22, 2022/23.
17.1. Budget calendar	
17.2. Guidance on budget preparation	
17.3. Budget submission to the legislature	
<b>PI-18. Legislative scrutiny of budgets</b>	Constitution 2008. PFA 2007. National Assembly Act 2008. National Council Act 2008. Rules of Procedures of the National Assembly 2014. National Budget Report for FYs 2020/21, 2021/22, 2022/23. EFC Review Report (9 June 2021). National Council Report (17 June 2021). Public Hearing Manual 2016. FRR 2016. FAM 2016 (Appendix 1). Public Finance (Amendment) Act 2012. AAR for FY 2020/21. <a href="https://www.mof.gov.bt/">https://www.mof.gov.bt/</a> .
18.1. Scope of budget scrutiny	
18.2. Legislative procedures for budget scrutiny	
18.3. Timing of budget approval	
18.4. Rules for budget adjustments by the executive	
<b>Predictability and control in budget execution</b>	
<b>PI-19. Revenue administration</b>	Income Tax Act 2001; Sales Tax, Customs and Excise Act 2000; Revenue Accounting Manual 2019; Income Tax Manual 2018; Indirect Tax Manual (Sales tax and Customs) 2006. DRC Customer Service Delivery Standard Guidelines. Compliance Improvement Plan for Sales Tax. Unpublished tax appeal data for income year 2021 provided by the DRC. Unpublished tax audit data for 2021/22 provided by the DRC. Unpublished revenue arrears data as of 30 June 2022 provided by the DRC.
19.1. Rights and obligations for revenue measures	
19.2. Revenue risk management	
19.3. Revenue audit and investigation	
19.4. Revenue arrears monitoring	
<b>PI-20. Accounting for revenues</b>	National Revenue Report for FY 2020/21. PFA 2007.
20.1. Information on revenue collections	
20.2. Transfer of revenue collections	
20.3. Revenue accounts reconciliation	
<b>PI-21. Predictability of in-year resource allocation</b>	AFS 2021/22. Public Finance (Amendment) Act 2012. Budget Manual 2016. PFA 2007. Supplementary Budget Appropriation Bill for FY 2020/21. Supplementary Budget Appropriation Bill for FY 2021/22.
21.1. Consolidation of cash balances	
21.2. Cash forecasting and monitoring	
21.3. Information on commitment ceilings	
21.4. Significance of in-year budget adjustments	

Indicator/dimension	Data Sources
<b>PI-22. Expenditure arrears</b>	FAM 2016.
22.1. Stock of expenditure arrears	Final CD Accounts for AFS.
22.2. Expenditure arrears monitoring	
<b>PI-23. Payroll controls</b>	Bhutan Civil Service Rules and Regulations 2018.
23.1. Integration of payroll and personnel records	RAA Performance Audit Report on e-Public Expenditure Management System (ePEMS), 2022.
23.2. Management of payroll changes	
23.3. Internal control of payroll	
23.4. Payroll audit	
<b>PI-24. Procurement</b>	<a href="https://www.egp.gov.bt/">https://www.egp.gov.bt/</a> .
24.1. Procurement monitoring	Unpublished data on value of procurement undertaken by the RGoB during FY 2021/22 provided by the DPP.
24.2. Procurement methods	Rules and Procedures of the Independent Review Body (IRB) 2015.
24.3. Public access to procurement information	PRR 2019.
24.4. Procurement complaints management	
<b>PI-25. Internal controls on non-salary expenditure</b>	FRR 2016.
25.1. Segregation of duties	RAA Performance Audit Report on e-Public Expenditure Management System (ePEMS), 2022.
25.2. Effectiveness of expenditure commitment controls	PFA 2007.
25.3. Compliance with payment rules and procedures	AAR for FY 2020/21.
<b>PI-26. Internal audit</b>	CCA Charter, Internal Audit Manual, Code of Conduct for Internal Auditors, Internal Auditing Standards, Quality Assurance and Improvement Program Guidelines for Internal Auditors, and Performance Audit Guidelines.
26.1. Coverage of internal audit	IIA Malaysia External Quality Assurance review was conducted (June 2019).
26.2. Nature of audits and standards applied	MoF Quality Assurance and Improvement Programme Guideline for Internal Audit Services of RGoB (2019).
26.3. Implementation of internal audits and reporting	Unpublished data on management responses to internal audit reports provided by the CCA.
26.4. Response to internal audits	
<b>Accounting and reporting</b>	
<b>PI-27. Financial data integrity</b>	FAM 2016.
27.1. Bank account reconciliation	Revenue Accounting Manual 2019.
27.2. Suspense accounts	AFS 2021/22.
27.3. Advance accounts	Unpublished suspense accounts data for FY 2020/21 and FY 2021/22 provided by the MoF.
27.4. Financial data integrity processes	Unpublished advance accounts data for FY 2020/21 and FY 2021/22 provided by the MoF.
<b>PI-28. In-year budget reports</b>	Quarterly Budget Performance Reports FY 2021/22.
28.1. Coverage and comparability of reports	
28.2. Timing of in-year budget reports	
28.3. Accuracy of in-year budget reports	
<b>PI-29. Annual financial reports</b>	AFS 2019/20, 2020/21, 2021/22.
29.1. Completeness of annual financial reports	Accounting and Auditing Standard Board of Bhutan (AASBB) Notification on the Adoption of International Public Sector Accounting Standards (30 June 2022).
29.2. Submission of the reports for external audit	
29.3. Accounting standards	

Indicator/dimension	Data Sources
<b>External scrutiny and audit</b>	
<b>PI-30. External audit</b>	Constitution 2008.
30.1. Audit coverage and standards	Audit Act 2018. RAA Strategic Plan 2020-2025.
30.2. Submission of audit reports to the legislature	Unpublished data on the number of central entities audited during FY 2019/20-FY 2021/22 provided by the RAA.
30.3. External audit follow up	AFS 2018/19, 2019/20, 2020/21.
30.4. Supreme Audit Institution independence	AAR 2019, 2020, 2020/21. RAA SAI Performance Report (2021).
<b>PI-31. Legislative scrutiny of audit reports</b>	Constitution 2008.
31.1. Timing of audit report scrutiny	Audit Act 2006. Audit Act 2018.
31.2. Hearings on audit findings	Unpublished data on the PAC's timing of audit report scrutiny provided by Parliament. AAR 2019, 2020, FY 2020/21.
31.3. Recommendations on audit by the legislature	Unpublished data on the audit hearings during FY 2019/20-FY 2021/22 provided by Parliament.
31.4. Transparency of legislative scrutiny of audit reports	PAC report to the Sixth Session of the Third Parliament (December 2021).

# ANNEX 4: CALCULATIONS FOR PI-1 AND PI-2

**Table Annex 4.1: Budgeted and actual spending, administrative classification, FY 2019/20**

Administrative Classification	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Allocation to LGs (Dzongkhags)	13,963.6	14,979.9	15,464.9	-485.0	485.0	3.1%
Ministry of Finance	6,957.7	10,503.5	7,705.7	2,797.8	2,797.8	36.3%
Ministry of Works & Human Settlement	3,206.6	3,025.4	3,551.3	-526.0	526.0	14.8%
Ministry of Home & Cultural Affairs	3,179.5	3,824.0	3,521.3	302.6	302.6	8.6%
Allocation to LGs (Thromdes)	1,856.6	2,240.2	2,056.3	184.0	184.0	8.9%
Allocation to LGs (Gewogs)	2,863.1	3,038.5	3,171.0	-132.5	132.5	4.2%
Ministry of Health	2,304.8	2,767.8	2,552.6	215.2	215.2	8.4%
Ministry of Agriculture & Forests	3,244.9	3,536.2	3,593.8	-57.7	57.7	1.6%
Ministry of Education	1,688.4	1,587.1	1,869.9	-282.7	282.7	15.1%
Jigme Dorji Wangchuck National Referral Hospital	1,387.3	1,639.5	1,536.5	103.0	103.0	6.7%
Ministry of Economic Affairs	1,041.6	939.6	1,153.6	-214.0	214.0	18.6%
Ministry of Information & Communications	1,461.8	1,168.6	1,618.9	-450.3	450.3	27.8%
Ministry of Labor & Human Resources	1,118.5	572.4	1,238.7	-666.4	666.4	53.8%
Royal University of Bhutan	955.4	1,120.3	1,058.1	62.2	62.2	5.9%
Ministry of Foreign Affairs	866.1	1,061.1	959.2	101.9	101.9	10.6%
Council for Religious Affairs	844.2	989.4	935.0	54.5	54.5	5.8%
Judiciary	385.0	411.8	426.4	-14.6	14.6	3.4%
National Environment Commission	596.5	85.7	660.6	-574.9	574.9	87.0%
Jigme Singye Wangchuck School of Law	203.3	232.0	225.2	6.8	6.8	3.0%
Royal Civil Service Commission	358.5	159.6	397.1	-237.5	237.5	59.8%
Residual heads	2,748.9	2,858.1	3,044.5	-186.4	186.4	6.1%
<b>Allocated expenditure</b>	<b>51,232.5</b>	<b>56,740.7</b>	<b>56,740.7</b>	<b>0.0</b>	<b>7,656.0</b>	
Interests	2,011.2	831.6				
Contingency	7,953.5					
<b>Total expenditure</b>	<b>61,197.3</b>	<b>57,572.3</b>				
Aggregate out-turn (PI-1)						94.1%
Composition (PI-2) variance						13.5%
Contingency share of budget						0.0%

**Table Annex 4.2: Budgeted and actual spending, administrative classification, FY 2020/21**

Administrative Classification	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Allocation to LGs (Dzongkhags)	16,907.9	17,090.1	18,350.1	-1,259.9	1,259.9	6.9%
Ministry of Finance	5,616.9	18,922.2	6,096.0	12,826.2	12,826.2	210.4%
Ministry of Works & Human Settlement	6,124.2	3,575.0	6,646.6	-3,071.6	3,071.6	46.2%
Ministry of Home & Cultural Affairs	3,771.4	3,832.2	4,093.1	-260.9	260.9	6.4%
Allocation to LGs (Thromdes)	3,477.6	2,761.3	3,774.2	-1,012.9	1,012.9	26.8%
Allocation to LGs (Gewogs)	3,561.9	3,489.1	3,865.7	-376.7	376.7	9.7%
Ministry of Health	3,549.9	3,165.8	3,852.7	-686.9	686.9	17.8%
Ministry of Agriculture & Forests	3,935.7	3,572.1	4,271.4	-699.3	699.3	16.4%
Ministry of Education	2,830.7	1,518.6	3,072.1	-1,553.5	1,553.5	50.6%
Jigme Dorji Wangchuck National Referral Hospital	1,756.9	1,587.9	1,906.7	-318.8	318.8	16.7%
Ministry of Economic Affairs	1,675.5	1,078.4	1,818.4	-740.0	740.0	40.7%
Ministry of Information & Communications	2,075.9	1,213.1	2,253.0	-1,039.9	1,039.9	46.2%
Ministry of Labor & Human Resources	915.8	736.3	993.9	-257.6	257.6	25.9%
Royal University of Bhutan	1,524.6	1,183.9	1,654.6	-470.7	470.7	28.4%
Ministry of Foreign Affairs	760.9	785.3	825.8	-40.5	40.5	4.9%
Council for Religious Affairs	791.5	916.3	859.0	57.3	57.3	6.7%

Administrative Classification	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Judiciary	458.6	372.3	497.7	-125.5	125.5	25.2%
National Environment Commission	344.3	185.8	373.7	-187.9	187.9	50.3%
Jigme Singye Wangchuck School of Law	282.5	301.2	306.6	-5.4	5.4	1.8%
Royal Civil Service Commission	396.2	195.1	430.0	-234.9	234.9	54.6%
Residual heads	3,028.6	2,746.4	3,287.0	-540.6	540.6	16.4%
<b>Allocated expenditure</b>	<b>63,787.4</b>	<b>69,228.4</b>	<b>69,228.4</b>	<b>0.0</b>	<b>25,767.0</b>	
Interests	2,027.7	1,863.4				
Contingency	3,336.0					
<b>Total expenditure</b>	<b>69,151.1</b>	<b>71,091.8</b>				
Aggregate out-turn (PI-1)						102.8%
Composition (PI-2) variance						37.2%
Contingency share of budget						0.0%

**Table Annex 4.3: Budgeted and actual spending, administrative classification, FY 2021/22**

Administrative Classification	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Allocation to LGs (Dzongkhags)	19,049.8	18,739.0	19,430.7	-691.7	691.7	3.6%
Ministry of Finance	5,734.5	5,903.7	5,849.2	54.5	54.5	0.9%
Ministry of Works & Human Settlement	5,598.6	5,334.6	5,710.6	-375.9	375.9	6.6%
Ministry of Home & Cultural Affairs	3,846.3	4,252.3	3,923.2	329.1	329.1	8.4%
Allocation to LGs (Thromdes)	3,503.0	3,567.5	3,573.1	-5.6	5.6	0.2%
Allocation to LGs (Gewogs)	3,479.2	3,419.8	3,548.8	-129.0	129.0	3.6%
Ministry of Health	3,330.7	4,305.4	3,397.3	908.1	908.1	26.7%
Ministry of Agriculture & Forests	3,160.8	3,754.0	3,224.0	530.0	530.0	16.4%
Ministry of Education	2,459.1	2,315.0	2,508.3	-193.3	193.3	7.7%
Jigme Dorji Wangchuck National Referral Hospital	1,964.2	1,865.2	2,003.5	-138.3	138.3	6.9%
Ministry of Economic Affairs	1,886.4	1,530.2	1,924.2	-394.0	394.0	20.5%
Ministry of Information & Communications	1,847.2	1,789.9	1,884.1	-94.2	94.2	5.0%
Ministry of Labor & Human Resources	1,557.1	1,085.5	1,588.3	-502.7	502.7	31.7%
Royal University of Bhutan	1,372.9	1,331.0	1,400.3	-69.3	69.3	4.9%
Ministry of Foreign Affairs	1,120.3	1,073.0	1,142.7	-69.7	69.7	6.1%
Council for Religious Affairs	855.6	893.9	872.7	21.2	21.2	2.4%
Judiciary	389.8	393.7	397.6	-3.9	3.9	1.0%
National Environment Commission	359.0	431.5	366.1	65.4	65.4	17.9%
Jigme Singye Wangchuck School of Law	347.1	263.9	354.0	-90.1	90.1	25.4%
Royal Civil Service Commission	338.7	376.9	345.4	31.5	31.5	9.1%
Residual heads	2,670.4	3,541.7	2,723.8	817.9	817.9	30.0%
<b>Allocated expenditure</b>	<b>64,870.6</b>	<b>66,167.9</b>	<b>66,167.9</b>	<b>0.0</b>	<b>5,515.4</b>	
Interests	3,348.3	2,988.7				
Contingency	5,700.5					
<b>Total expenditure</b>	<b>73,919.3</b>	<b>69,156.6</b>				
Aggregate out-turn (PI-1)						93.6%
Composition (PI-2) variance						8.3%
Contingency share of budget						0.0%

**Table Annex 4.4: Results Matrix**

Year	For PI-1.1 Total expenditure out-turn	For PI-2.1 Composition variance	For PI-2.3 Contingency share
FY 2019/20	94.1%	13.5%	0.0%
FY 2020/21	102.8%	37.2%	
FY 2021/22	93.6%	8.3%	

**Table Annex 4.5: Budgeted and actual spending, economic classification, FY 2019/20**

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Compensation of employees	12,953.8	17,706.2	14,006.8	3,699.3	3,699.3	26.4%
Use of goods and services	7,830.7	8,318.3	8,467.3	-149.1	149.1	1.8%
Interest	2,011.2	831.6	2,174.7	-1,343.1	1,343.1	61.8%
Subsidies	2,605.5	2,889.2	2,817.3	71.9	71.9	2.6%
Grants	5,759.5	2,219.1	6,227.7	-4,008.7	4,008.7	64.4%
Social benefits	663.1	3,522.0	717.0	2,805.1	2,805.1	391.2%
Other expenses	2,758.8	4,361.2	2,983.1	1,378.0	1,378.0	46.2%
Capital Spending	18,661.2	17,724.7	20,178.3	-2,453.5	2,453.5	12.2%
<b>Total expenditure</b>	<b>53,243.8</b>	<b>57,572.3</b>	<b>57,572.3</b>	<b>0.0</b>	<b>15,908.7</b>	
<i>Composition variance</i>						27.6%

**Table Annex 4.6: Budgeted and actual spending, economic classification, FY 2020/21**

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Compensation of employees	18,399.1	18,346.5	19,874.2	-1,527.8	1,527.8	7.7%
Use of goods and services	3,008.6	7,341.4	3,249.8	4,091.6	4,091.6	125.9%
Interest	2,027.7	1,863.4	2,190.3	-326.9	326.9	14.9%
Subsidies	2,386.3	4,032.0	2,577.6	1,454.3	1,454.3	56.4%
Grants	12,155.1	1,200.4	13,129.6	-11,929.2	11,929.2	90.9%
Social benefits	526.7	12,931.5	568.9	12,362.5	12,362.5	2173.0%
Other expenses	1,398.9	1,007.6	1,511.0	-503.4	503.4	33.3%
Capital Spending	25,912.8	24,369.1	27,990.4	-3,621.3	3,621.3	12.9%
<b>Total expenditure</b>	<b>65,815.1</b>	<b>71,091.8</b>	<b>71,091.8</b>	<b>0.0</b>	<b>35,817.0</b>	
<i>Composition variance</i>						50.4%

**Table Annex 4.7: Budgeted and actual spending, economic classification, FY 2021/22**

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Compensation of employees	19,229.75	18,958.84	19,494.1	-535.2	535.2	2.7%
Use of goods and services	2,913.84	7,895.20	2,953.9	4,941.3	4,941.3	167.3%
Interest	3,348.28	2,988.69	3,394.3	-405.6	405.6	11.9%
Subsidies	1,342.14	2,257.01	1,360.6	896.4	896.4	65.9%
Grants	13,784.36	823.49	13,973.8	-13,150.4	13,150.4	94.1%
Social benefits	525.64	1,956.42	532.9	1,423.6	1,423.6	267.2%
Other expenses	1,477.98	2,762.50	1,498.3	1,264.2	1,264.2	84.4%
Capital Spending	25,596.88	31,514.47	25,948.7	5,565.7	5,565.7	21.4%
<b>Total expenditure</b>	<b>68,218.86</b>	<b>69,156.61</b>	<b>69,156.6</b>	<b>0.0</b>	<b>28,182.4</b>	
<i>Composition variance</i>						40.8%

**Table Annex 4.8: Results Matrix**

Year	Composition variance
FY 2019/20	27.6%
FY 2020/21	50.4%
FY 2021/22	40.8%





# ANNEX 5: CALCULATIONS FOR PI-3

**Table Annex 5.1: Budgeted and actual revenues for FY 2019/20**

Economic Head	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
Corporate income tax (CIT)	10,677.905	7,511.681	10,759.380	3,247.699	3,247.699	30.2%
Business Income tax (BIT)	1,824.532	1,138.905	1,838.454	699.549	699.549	38.1%
Personal income tax (PIT)	1,832.532	2,290.702	1,846.515	444.187	444.187	24.1%
Taxes on goods and services	5,619.518	6,916.825	5,662.396	1,254.429	1,254.429	22.2%
Customs duty	591.722	467.997	596.237	128.240	128.240	21.5%
Other taxes	6,595.612	4,466.878	6,645.938	2,179.060	2,179.060	32.8%
Other revenue	14,946.909	12,014.096	15,060.958	3,046.862	3,046.862	20.2%
Current revenue from government agencies	634.246	1,333.344	639.086	694.258	694.258	108.6%
Capital revenue from government agencies	147.279	78.448	148.402	69.954	69.954	47.1%
Grants	10,891.310	16,425.750	10,974.414	5,451.336	5,451.336	49.7%
Other receipts	428.816	1,959.242	432.088	1,527.154	1,527.154	353.4%
<b>Total revenue</b>	<b>54,190.381</b>	<b>54,603.868</b>	<b>54,603.868</b>	<b>0.0</b>	<b>18,742.729</b>	
<i>Overall variance</i>						100.8%
<i>Composition variance</i>						34.3%

**Table Annex 5.2: Budgeted and actual revenues for FY 2020/21**

Economic Head	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
Corporate income tax (CIT)	6,922.443	7,241.533	7,678.009	436.476	436.476	5.7%
Business Income tax (BIT)	921.700	1,078.543	1,022.301	56.242	56.242	5.5%
Personal income tax (PIT)	1,553.194	1,367.349	1,722.721	355.372	355.372	20.6%
Taxes on property	53.353	138.915	59.176	79.739	79.739	134.7%
Taxes on goods and services	6,070.386	5,438.255	6,732.952	1,294.697	1,294.697	19.2%
Customs duty	560.364	555.082	621.526	66.444	66.444	10.7%
Other taxes	4,488.163	4,842.090	4,978.034	135.944	135.944	2.7%
Other revenue	11,222.135	14,039.480	12,447.001	1,592.480	1,592.480	12.8%
Current revenue from government agencies	1,367.279	1,073.245	1,516.514	443.269	443.269	29.2%
Capital revenue from government agencies	29.930	80.954	33.197	47.757	47.757	143.9%
Grants	20,142.848	14,882.289	22,341.386	7,459.097	7,459.097	33.4%
Other receipts	489.833	8,958.379	543.297	8,415.082	8,415.082	1,548.9%
<b>Total revenue</b>	<b>53,821.628</b>	<b>59,696.114</b>	<b>59,696.114</b>	<b>-</b>	<b>20,382.599</b>	
<i>Overall variance</i>						110.9%
<i>Composition variance</i>						34.1%

**Table Annex 5.3: Budgeted and actual revenues for FY 2021/22**

Economic Head	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
Corporate income tax (CIT)	7,089.897	10,063.607	6,788.773	3,274.834	3,274.834	48.2%
Business Income tax (BIT)	1,022.903	1,298.427	979.458	318.969	318.969	32.6%
Personal income tax (PIT)	1,537.565	1,963.727	1,472.261	491.466	491.466	33.4%
Taxes on property	36.202	144.625	34.664	109.960	109.960	317.2%
Taxes on goods and services	7,342.266	7,452.002	7,030.423	421.579	421.579	6.0%
Customs duty	485.743	509.978	465.112	44.866	44.866	9.6%
Other taxes	5,416.611	4,410.687	5,186.555	775.868	775.868	15.0%
Other revenue	11,515.203	11,544.267	11,026.126	518.142	518.142	4.7%
Current revenue from government agencies	1,071.206	1,233.823	1,025.709	208.114	208.114	20.3%
Capital revenue from government agencies	82.403	421.931	78.903	343.028	343.028	434.7%
Grants	20,525.311	13,583.562	19,653.554	6,069.992	6,069.992	30.9%
Other receipts	640.271	1,727.981	613.077	1,114.904	1,114.904	181.9%
<b>Total revenue</b>	<b>56,765.58</b>	<b>54,354.616</b>	<b>54,354.62</b>	<b>0.00</b>	<b>13,691.72</b>	
<i>Overall variance</i>						95.8%
<i>Composition variance</i>						25.2%

**Table Annex 5.4: Results matrix for PI-3**

Fiscal Year	Total Revenue Deviation	Composition Variance
2019/20	100.8%	34.3%
2020/21	110.9%	34.1%
2021/22	95.8%	25.2%

# ANNEX 6: NOTE ON LOCAL GOVERNMENTS

## Overview

As per the Constitution 2008 (Article 22.4), the overarching objective of LGs is to provide democratic and accountable government for local communities through direct participation in the development and management of their own social, economic and environmental well-being.

LGs have no legislative mandates and are required to function in accordance with the acts legislated by Parliament and the sector-specific rules and guidelines framed by the RGoB, line ministries and constitutional bodies.

There are two LG tiers with Dzongkhag Tshogdu (district council) as the upper tier and Gewog Tshogde (county committee) and Thromde Tshogde (municipal committee) as the lower tier. These elected bodies represent the interests of local communities with an aim to fulfill their aspirations and needs.

Bhutan is administratively divided into 20 Dzongkhags which are subdivided into 205 Gewogs that are further subdivided into 1,044 Chiwogs (administrative units under a gewog). With the growth of commercial areas, larger commercial centers are carved out as Dzongkhag Thromdes (district municipalities) and smaller ones as Yenlag Thromdes (satellite towns). At present, there are four Dzongkhag Thromdes and 25 Thromde Demkhongs (municipal constituencies) and 16 Yenlag Thromdes. As of December 2022, Bhutan has a total of 229 LGs and 1,499 LG members. The table below shows the details of LG units and LG members.

**Table Annex 6.1: LGs and LG members**

LG Units	Members	Remarks
Dzongkhag Tshogdu	All Gups and Mangmis in the Dzongkhag; Dy. Chairperson of Thromde Tshogde; and One representative from Yenlag Thromdes;	Both Chairperson and Dy. Chairperson are elected from among the members.
Thromde Tshogde	Thrompon of the Thromde concerned; and One representative from each Thromde constituency;	Thrompon is the ex-officio Chairperson; Dy. Chairperson is elected from among the members.
Gewog Tshogde	Gup and Mangmi of the Gewog concerned; and All Tshogpas in the Gewog.	Both Gup and Mangmi are ex-officio Chairperson and Dy. Chairperson respectively.

The tenure of a LG is five years commencing from the date of the first sitting, which is convened within one month of the declaration of election results. The LG is subject to dissolution before completing its tenure under certain conditions, for instance, when the number of members is less than seven, the minimum requirement.

The mandate of the RGoB in local governance is basically to provide necessary support, such as financial and human resources. It is required to allocate adequate financial resources in the

form of grants for capital and current expenditure. It is also to develop the systems, capacities and structures of LGs, making them more responsive, efficient and effective in delivering public services.

### **Legal and Institutional Framework**

The constituencies, institutional set-ups, memberships, mandates and powers of LGs are outlined in the Article 22 of the Constitution and delineated in the LG Act 2009 and the LG (Amendment) Act 2014, which together provide the legal and regulatory framework for formation and functioning of LGs in line with the democratic system introduced in 2008. The same laws, principles, systems, and procedures of financial management apply across all LGs and RGoB budgetary bodies.

The election of members to the LGs is governed by the Election Act 2008 and the Rules and Guidelines made thereunder. Similarly, the payment of salary and other emoluments to LG members are managed in accordance with the LG Members' Entitlement Act 2015 and the Rules and Regulations made thereunder.

The legal framework for financial management emanates from the Constitution, PFA 2007 and FRR 2016, which clearly define the roles and responsibilities of ministries, autonomous agencies and LGs. LG finance professionals are appointed by the RCSC under uniform employment terms and conditions based on the Civil Service Act 2010 and the Rules made thereunder.

The RGoB issued the Thromde Finance Policy in 2012 to establish the financial management practices in Thromdes. It empowers the Thromdes to levy taxes and duties in accordance with procedures and limitations determined by Parliament to provide essential services, promote public participation in decision-making, and to manage the resources and growth of the Thromde in a sustainable manner for the general wellbeing of the residents. The Policy is applicable only to major Thromdes that have Thromde Tshogdes established for semi-autonomous municipal governance.

The LG Act 2009 provides that Dzongkhag Tshogdu is the highest decision-making body in the Dzongkhag with the power to review and endorse plans, projects, budgets and expenditures proposed by Dzongkhag Administration and can seek clarifications on any activities or emerging issues. Similarly, Gewog Tshogde and Thromde Tshogde have the authority to endorse their five-year plans, annual plans and budgets prepared by the Gewog Administration and Thromde Administrations, respectively.

As for financial powers, the Dzongkhag Tshogdu, Gewog Tshogde and Thromde Tshogde have the authority to approve the use of annual grants and certain funds generated from their local revenue sources. However, the rates of local taxes are determined by laws made by Parliament and the rates of fees, tolls and charges are approved by the MoF in line with the PFA 2007.

The MoF's Department of Planning, Budget and Performance (DPBP) as well as the Department of Treasury and Accounts (DTA) are the entities responsible for inter-governmental fiscal transfers to LGs and monitoring expenditures. There is an established and comprehensive legal framework governing the digitalized national budgeting and accounting system.

The parent administrative ministry for overall decentralization policies and frameworks is the Ministry of Home Affairs (MoHA) where the Department of Local Governance and Disaster Management is the focal agency responsible for supporting LGs. It has been vested with the responsibilities of supporting LGs in planning and governance, monitoring and evaluation, capacity building, maintaining an information database, conducting assessments, and undertaking research and analyses.

## **Decentralization and local autonomy**

### **Human Resource Management**

The employment terms and conditions of both regular and contract civil servants in the LGs are managed in accordance with the Civil Service Act 2010 and Bhutan Civil Service Rules and Regulations 2018. The RCSC is the central personnel agency, but has decentralized certain human resource management functions to the LGs.

The number and categories of civil servants needed for a government agency is jointly determined by the local agency and the RCSC through periodic staffing need analyses, which are based on standard operating procedures, turn-around time and national calendar.

Initial recruitment to professional and management category and promotion to executive and specialist category are done by the RCSC ensuring the quality and transparency. However, initial recruitments to supervisory and support categories as well as operational and elementary categories are done by the LGs based on the number of staff jointly determined by the LGs and RCSC for each agency.

Powers and functions are decentralized to LGs to assess the performance of their civil servants and take necessary human resource management actions, including promotion, training, retirement and termination of professional to elementary level personnel. Similar actions against the executive and specialist positions are taken by the RCSC.

Salaries, allowances and other emoluments of civil servants are determined by the RGoB/Parliament through a pay revision act based on the recommendations of a National Pay Commission, which is established periodically through an executive order.

The LG Act 2009 provides that officials of various sectors and agencies of the RGoB serving within the jurisdiction of a LG shall be administratively accountable to the head of the LG and technically to the concerned sector or agency.

The Dzongkhags Tshogdu (DT) is supported by a Tshogdrung, a civil servant who serves as DT secretary. The Dzongkhag Administration, comprising technical sectors, headed by the Dzongdag (Chief Executive) is responsible for the management of Dzongkhag plans and projects. They are also responsible and accountable for implementation of DT decisions to the DT. The Gewogs Tshogde (GT) is supported by the Gewog Administrative Officer (GAO), a civil servant who serves as GT secretary. The Thromde Tshogde (TT) is supported by the Executive Secretary, a civil servant who serves as TT secretary.

## Community Participation

Annual plans of LGs are formulated in consultation with local communities and decided through LG institutions (DT, GT, TT). Local issues and challenges are tabled, discussed and resolved at user groups, community engagement platforms and local public meetings.

Local people may take opportunity to exert influence and carry out oversight functions through their elected LGs (DT, GT and TT). In a Dzongkhag, the DT is the highest authority responsible for local decision-making and oversight functions. Similarly, the GT and TT are responsible for local decision-making and oversight functions at the Gewog and Thromde level, respectively.

The LG Act mandates that DT sessions should be convened at least once in every six months. However, the Chairman may convene additional sessions. Similarly, GT and TT sessions are held at least three times a year at an interval of six months. All sessions of LGs are open to the public, except for certain closed-door sessions held in the public interest.

## Transparency and Accountability

The LG Act 2009 requires that all LGs have public notice boards displayed at the entrance of their offices. An agenda for the upcoming session as well as the annual budget, annual work plan and call for tenders, and other relevant information, are required to be displayed on public notice boards.

The LG Act 2009 requires the LGs to publish various information – including their FYPs, annual plans and budget, publicly announce the dates of their sessions and announce calls for tenders, awards of contracts, value of contracts, and projects under implementation – through public media and publication of an annual report with prescribed contents. All Dzongkhags have websites, though information disclosed varies.

## Fiscal Decentralization

Significant developments have been initiated in the area of fiscal decentralization in recent years with support from development partners. The 2008 RAF was revised in 2018, incorporating more determinants, such as happiness index, cultivable land, public health, local literacy, local per capita income, environmental wellbeing, safety and culture, making the allocation of grants more equitable across LGs. The Annual Grant Guidelines for Local Governments (2010) was revised in 2019, 2020 and 2022, granting discretionary powers to LGs to plan and prioritize local socio-economic development activities within the amounts of untied annual block grants. The Thromde Finance Policy (2012) is still being implemented to access and manage financial resources more efficiently and sustainably.

Over and above the annual grants, the RGoB has initiated and implemented Flagship Programs to address high priority national issues in a concerted and holistic manner through multisectoral collaboration and coordination. Such issues include economic diversification, job creation, access to reliable drinking water, tourism development, agricultural returns and investment in cottage and small-scale industries. The Local Development Planning Manual for Dzongkhags and Gewogs (2010) was revised in 2021, with the objective of promoting citizen-centric planning and prioritization. The Division of Responsibilities Framework between the Central Government and Local Governments (2012) is currently being revised to decentralize more authorities and resources to LGs, and bring more clarity to their responsibilities and accountability aspects.

Chapter 15 of the LG Act 2009 grants financial autonomy to LGs to (a) levy, collect and appropriate taxes, fees, tolls, duties and fines in accordance with such procedures and subject to limitations as may be provided for by law; and (b) own assets and incur liabilities by borrowing on their own account. However, only Gewogs and Thromdes are granted the authority to levy local taxes.

The Constitution (Article 22) guarantees that LGs would be supported by the RGoB in the development of administrative, technical and managerial capacities and structures which are responsive, transparent, and accountable. For this purpose, an entitlement framework has been provided for the LGs in the LG Act 2009. However, most of these remain ‘entitlements’ only as depicted in the table below.

**Table Annex 6.2: Entitlement framework and actual practice**

Provisions of LG Act 2009	In Actual Practice		
	Dzongkhags	Gewogs	Dzongkhag Thromdes
LGs shall, subject to such limitations as may be provided for by law, be entitled to own assets (s. 219)	Yes. Such as, land, building, and equipment. Assets are managed as per property management rules framed by the Ministry of Finance.		
LGs shall be entitled to levy, collect and appropriate taxes, fees, tolls, duties and fines in accordance with such procedure and subject to limitations as may be provided for by law (s. 216)	Yes. Dzongkhags levy various fees, charges and taxes as per the law, such as construction fee, water charges, land tax, street light charges, waste charges, property transfer tax, education fee, and name change fee. However, almost all are remitted.	Yes. Taxes levied on land, building, grazing, cattle, etc. at rates approved by Parliament, though amounts raised are very less. Taxes levied are retained.	Yes. Land tax, urban house tax, under development fees, parking fees, property transfer fee, etc. Taxes levied are retained.
LGs shall be allocated a proportion of the national revenue to ensure self-reliance and sustenance. (s. 218).	Yes. LGs are allocated 50% of the total budget outlay of the 12 <sup>th</sup> Five Year Plans.		
	Dzongkhags were allocated Nu.20 billion.	Gewogs were allocated Nu.20 billion.	Thromdes were allocated Nu.10 billion.
LGs shall have the power to spend funds generated from their local taxes, fees and fines, and from funds allocated by the Royal Government (s. 220).	Yes. Annual grants allocated by the Central Government are appropriated with the Dzongkhag Tshogdu’s approval. In addition, they also spend non-tax revenues generated from parking fee, vender fees, hall charges, and utility charges.	Yes. Annual Grants allocated by the Central Government are appropriated with the Dzongkhag Tshogdu’s approval. In addition, they also spend the local tax and non-tax revenue, generated from house tax, land tax, cattle tax, and orchard tax.	Yes. Annual Grants allocated by the Central Government are appropriated with the Thromde Tshogde’s approval. Thromde Tshogde has the power to spend the local tax and non-tax revenues, which are quite substantial compared to Dzongkhags and Gewogs.
LGs also prepare five-year plans, annual plans and budgets within the ceiling provided by the MoF.	Yes. Dzongkhags plan and prioritize their annual development activities within the annual capital grants.	Yes. Gewogs plan and prioritize their annual development activities within the annual capital grants.	Yes. Thromdes plan and prioritize their annual development activities within the annual capital grants.



Provisions of LG Act 2009	In Actual Practice		
	Dzongkhags	Gewogs	Dzongkhag Thromdes
	However, Dzongkhags have the discretion in spending their own-source local revenue.	However, Gewogs have the discretion in spending their own-source local revenue.	However, Thromdes have the discretion in spending their own-source local revenue.
Officials of various sectors and agencies of the Government serving within the jurisdiction of a LG shall be administratively accountable to the head of the LG and technically to the concerned sector or agency (s. 204).	All civil servants are initially recruited by the RCSC. Only certain contract employees, support staff and elementary/general service personnel are recruited by Dzongkhags. And the number of staff is determined jointly.	All civil servants are initially recruited by the RCSC, except for Elementary Service Personnel and General Service Personnel. And the number of staff is determined jointly.	All civil servants are initially recruited by the RCSC. Only certain contract employees, support staff and elementary/general service personnel are recruited by Thromdes. And the number of staff is determined jointly.
LGs are entitled to incur liabilities by borrowing on their own account, subject to limitations.	No borrowing done to date.	No borrowing done to date.	No borrowing done to date.

Source: Department of Local Governance and Disaster Management, MoHA.

### Planning and budgeting

FYPs as well as annual plans and budgets are formulated by LGs in accordance with the Local Development Planning Manual (2021) prescribed and revised periodically by the GNHC in consultation with LGs, relevant sectors and local communities.

In line with the plan objective of Bhutan's 12<sup>th</sup> FYP to ensure a just, harmonious and sustainable society through enhanced decentralization, LGs are empowered with a greater financial autonomy in the form of annual grants – capital grants and current grants.

Upon receipt of a budget call notification from the MoF, the Finance Section of the Dzongkhag/Gewog/Thromde notifies the local sectors to prepare the budget proposals in consultation with the communities and LG functionaries, following the indicative budget ceiling of capital budget of each sector. While the preparation of capital budget is coordinated by the planning units concerned in consultation with relevant sectors, the preparation of current budgets is coordinated by the finance section.

Based on the activity lists of the FYPs, and also on a need basis, the sectors prioritize the activities to be implemented in a particular financial year. The sectors submit the proposed capital budgets to the planning units where the sectors and the planning units sit together to discuss and work within the given indicative budget ceiling.

The proposed plans and budgets are tabled before the Dzongkhag/Gewog/Thromde Finance Committee for endorsement. The capital budget proposals are discussed and endorsed by the Finance Committee concerned.

The capital plans and budgets endorsed by the finance committees concerned are then tabled before the DT/GT/TT as per the section 52 (a) of the LG Act 2009 for reviews, changes and approvals, as the case may be. The DT/GT/TT has the authority to change or approve the decisions of the Finance Committee.

### Budgeted Annual Grants to LGs

The annual grants to LGs were initiated by the RGoB to promote decentralization process. Section 18(c) of the Constitution states that “Local Government shall be entitled to adequate financial resources from the government in the form of annual grants”.

The annual grants for Gewogs were initiated from FY 2019/20 and the Guidelines for Gewog Annual Grants was issued in July 2019.<sup>98</sup> Annual grants to Dzongkhags and Thromdes, in the form of annual grants similar to those of Gewogs, were initiated from FY 2020/21 based on the Annual Grants Guidelines for LGs (July 2020).<sup>99</sup> The annual grants comprise a Current Grant for regular operation and maintenance of the LG administrations, and a Capital Grant for developmental activities.

In FY 2022/23, the LGs continue to receive the budget in the form of untied annual grants which pertains to RGoB financing. The LGs also receive budget for project-tied activities under external financing for implementation of specific programs/activities. Dzongkhags also receive the budget for Common Minimum Infrastructure (CMI), which are allocated for gewogs but provisioned under the respective dzongkhags. The CMI budget is allocated to promote and achieve balance and equitable socio-economic development for LGs.

**Table Annex 6.3: Budgeted annual grants to LGs FY 2022/23**

Category	Recurrent		Capital		CMI Budget	Grand Total
	RGoB	RGoB	External	Total		
Dzongkhags	10,602.234	1,572.630	908.375	2,481.004	3,711.140	16,794.378
Gewogs	699.187	2,760.000	-	2,760.000		3,459.187
Thromdes	1,443.742	1,000.000	71.900	1,071.900		2,515.642

In addition to the annual grants, there are budgets allocated for LG activities which are centrally executed by central agencies/ministries as shown in table below.

**Table Annex 6.4: Centrally executed budget for LGs in FY 2022/23**

Category	Agency Total	From Central Agency	From Dzongkhags	Grand Total
Dzongkhags	16794.378	6,661.366		23,455.745
Gewogs	3,459.187	981.750	3,711.140	8,152.077
Thromdes	2,515.642	152.360		2,668.002

**Table Annex 6.5: Allocation of annual grants to LGs**

	FY 2019/20 Actual	FY 2020/21 Actual	FY 2021/22 Actual	FY 2022/23 Budget
Annual Grants to LG	20,258.544	23,340.523	25,726.303	22,769.207
<i>Dzongkhags</i>	14,979.858	17,090.148	18,739.019	16,794.378
<i>Gewogs</i>	3,038.465	3,489.054	3,419.799	3,459.187
<i>Thromdes</i>	2,240.221	2,761.321	3,567.485	2,515.642
Ministries	29,817.204	40,262.301	34,332.439	50,958.434

<sup>98</sup> <http://www.mof.gov.bt/wp-content/uploads/2019/08/GAGrev12019.pdf>.

<sup>99</sup> <https://www.mof.gov.bt/wp-content/uploads/2020/07/Guidelineslocalgovernments.pdf>.

	FY 2019/20 Actual	FY 2020/21 Actual	FY 2021/22 Actual	FY 2022/23 Budget
Autonomous Agencies	6,503.727	6,537.656	7,577.473	7006.050
Constitutional Bodies	581.019	579.070	1,126.725	719.244
Judiciary	411.789	372.261	393.674	374.376
<b>Grand Total</b>	<b>57,572.283</b>	<b>71,091.811</b>	<b>69,156.614</b>	<b>81,827.311</b>

Source: AFS and National Budget Report for FY 2022/23.

## Budget Execution

The provisions regarding the execution of public works and procurement of services are elaborated in the FRR 2016 and the PRR 2019, respectively. LGs are expressly prohibited by the LG Act 2009 from exceeding budgetary ceilings or allowing a bank account to be in overdraft and other requirements specified in the PFA 2007.

In Dzongkhags, the DT is responsible for approving planned programs and activities whereas the Dzongdag (the Dzongkhag's CEO) together with Sector Heads is responsible for execution and implementation of programs and activities approved by the DT. In addition, the DT also monitors and evaluates the implementation of these approved activities. Similarly in Gewogs and Thromdes, the GT and TT are responsible for approving programs and activities.

However, in Gewogs, Gups and Gewog functionaries implement programs in addition to monitoring and ensuring that implementation of programs is in line with the framework provided by the RGoB. The Executive Secretaries in Thromdes are entrusted and made responsible for execution and implementation of the programs. The TT ensures that implementation is per the approved plans. Dzongkhags and gewogs follow the RGoB's budget execution systems, which are also followed by the Thromdes so far as RGoB grants are concerned.

In Dzongkhags, works are executed either through private contractors or departmentally, depending upon the capacity and nature of the work. In Gewogs, works are executed through participation of the beneficiaries in case of maintenance works and through contractors for major investment works. Preparation of estimates, technical sanctions, maintenance of measurement books, issuing the completion reports and supervision of works for quality control are done through the Engineering Cell in a Dzongkhag for all the works, both in Dzongkhags and Gewogs. Engineers are assigned the responsibility for work inspections. Thromdes execute works either through contractors or departmentally, and have their own engineers and architects.

The procedure for fund releases is well-established: Fund flows to LGs follow the same processes as for the RGoB's line ministries. The release mechanism for capital expenditures has been simplified and entails submitting a work plan on the BMT. The financial plan, indicating the amount and readiness for implementation of work in each of the four quarters of the fiscal year, which is submitted on the BMT, is then linked to the submission of the monthly release forecast which is submitted to the MoF's DTA.

All releases are made electronically through the prevalent method of Letters of Credit (LC). The recurrent budgets are also released monthly to the LGs, subject to timely submission of monthly release forecasts. Budget results and the percentage differences between budget estimates and actual expenditures for aggregate expenditures, excluding debt service

payments for Dzongkhags and Gewogs, are provided in the table below and show substantial deviations.

**Table Annex 6.6: Budget execution of Dzongkhags and Gewogs in FY 2020/21 and FY 2021/22**

Unit	FY 2020/21			FY 2021/22		
	Budget	Expenditure	Expenditure Out-turn	Budget	Expenditure	Expenditure Out-turn
Dzongkhag	20,125.21	17,090.15	-15.08%	21,572.91	18,739.02	-13.14%
Gewogs	3,619.87	3,489.05	-3.61%	3,675.94	3,419.80	-6.97%
<b>Total for RGoB</b>	<b>85,381.42</b>	<b>71,091.81</b>	<b>-16.74%</b>	<b>82,887.48</b>	<b>69,156.61</b>	<b>-16.57%</b>

### Procurement

Bhutan's public procurement system has evolved from a manual system in the 11<sup>th</sup> FYP (2013-2018) to a digital system by the 12<sup>th</sup> FYP (2018-2023) based on the e-GP system, which promotes signing of timely, equitable, transparent and cost-effective contracts with qualified private firms/individuals for the delivery of public goods and services.

LGs are required to follow the PRR 2019 which provide for the delegation of procurement responsibility at the LG level and defines the composition and role of Tender Committees in Dzongkhags, Gewogs and Thromdes. It also provides for various methods of procurement, regarding goods, works and consultancies with different thresholds for each method.

The Community Contracting Protocol (CCP) provides that in a remote area, any work with an estimated value of up to Nu. 1.5 million can be awarded to the local community provided that it is endorsed by the GT. This method is put in place to encourage local participation in socio-economic developments and, also, to overcome difficulties owing to lack of potential bidders in remote areas. It enables the community to develop local capacity and sense of ownership for long-term sustainability.

### Accounting

The PFA 2007 mandates that all budgetary bodies shall base their accounting records on the accounting standards prescribed by the MoF, which also applies to all Dzongkhags and Gewogs. Detailed accounting rules are elaborated in the FRR 2018. Accordingly, all budgetary bodies, including LGs, undertake accounting using the e-PEMS.

### Internal Controls and Financial Reporting

Under the present set-up, where the LGs remain wholly dependent upon the RGoB for their funding, accountability arrangements are primarily designed to provide information on the LGs' use of RGoB funds. The FRR 2016 lays out transactional control on all government receipts and payments procedures, which apply to all Dzongkhags and Gewogs.

LGs have service delivery standards for payment of bills (within 30 days), and Dzongkhags and Gewogs have an internal control system for process. All bill received are dated and entered into a Bill Register from where, once processed, they are cleared and paid. The payment date can be verified from the system-generated voucher which shows the payment instruction number.

LGs do not prepare or publish annual consolidated financial statements. Expenditures incurred at the LG-level for RGoB funds are incorporated into the AFS of the RGoB. However, progress of implementation along with financial progress of Dzongkhags and Gewogs are reported to DT and GT, respectively.

All donor funds for LGs are routed through their budgets and expenditures are reported together in the monthly accounts of the LGs. The accounting treatment for donor funds is the same as for RGoB funds, except that it is recorded under different Financing Item Codes (FICs) in order to enable tracking the sources of funds

### **Internal Audit**

In 2000, Internal Audit Units (IAUs) were established in several ministries and the coverage was progressively extended to all ministries, autonomous agencies, Dzongkhags and Thromdes. The conduct of internal audit is mandated by the PFA 2007, Internal Audit Charter 2008, and Internal Audit Manual 2014.

The internal audit ensures the accuracy and reliability of accounting and operational data, protection of public resources from waste, fraud, and misuse, and adherence to relevant laws by government agencies. It also monitors and reviews internal management controls, strategic planning and performance, democratic governance and public accountability.

### **External Audit**

The RAA audits the LGs in accordance with the Article 25 of the Constitution, Audit Act of Bhutan 2018, PFA 2007 (Amendment 2012) and in accordance with the International Standards of Supreme Audit Institutions (ISSAIs).

The majority of LGs are audited on an annual basis since they form some of the biggest spending entities. Audits conducted by the RAA for LGs are transaction-based and cover 100% of transactions, although depending on the perceived risk involved in carrying out the audit of a particular LG, and in some cases the RAA instead applies a risk-based approach. A monthly financial statement of the LGs are prepared by the LGs, and certified by the RAA which is appended with the annual audit reports.

Audit of LGs has been completed up to FY 2021/22. Of the total audit irregularities (Nu. 7,525.498 million) reported in the RAA's AAR for FY 2021/22, the irregularities related to LGs accounted for 7.5% (Nu. 564.412 million). The LG's share of the total RGoB spending in FY 2021/22 was 37.2% (Nu. 25,726.266 million).

A system of resolution of audit observations has been instituted. The Finance Personnel are entrusted with the responsibility to respond to the audit report. Meetings are also held between Dzongkhag officials and the RAA audit teams to discuss and resolve memos. Individual officers responsible for lapses are held accountable.





1818 H Street  
NW Washington, DC 20433-USA