ROYAL GOVERNMENT OF BHUTAN

PUBLIC FINANCIAL MANAGEMENT REFORM STRATEGY 2017 - 2021

Ministry of Finance
August 2017

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ANNEXURES & TABLES

ANNEXURES:

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ABBREVIATIONS

AASBB	Accounting and Auditing Standards Board of Bhutan
ACS	Audit Clearance System
ADA	Austrian Development Agency
ADB	Asian Development Bank
AFS	Annual Financial Statements
APA	Annual Performance Agreement
AIMS	Audit Information Management System
ARMS	Audit Resource Management System
ASOSAI	Asian Organisation of Supreme Audit Institutions
BAS	Bhutanese Accounting Standards
BoB	Bank of Bhutan
BPE	Business Process (re) Engineering
CAT	Certified Accounting Technician
CCA	Central Coordinating Agency for Internal Audit
CGAP	Certified Government Auditing Professional
CIPS	Chartered Institute of Procurement and Supply
CoA	Chart of Accounts
COTS	Commercial Off-The-Shelf
CS-DRMS	Commonwealth Secretariat - Debt Recording and Management System
CSIS	Civil Service Information System
CSOs	Civil Society Organizations
DeMPA	Debt Management Performance Assessment
DHI	Druk Holding and Investments
DMD	Debt Management Division
DMEA	Department of Macroeconomic Affairs
DNB	Department of National Budget
DNP	Department of National Properties
DPA	Department of Public Accounts
DPs	Development Partners
DRC	Department of Revenue and Customs
DSA	Debt Sustainability Assessment
EFTCS	Electronic Fund Transfer and Clearing System
eGP	electronic Government Procurement
EU	European Union
EUR	Euros
FAD	Fiscal Affairs Department
FRR	Financial Rules and Regulations
FC	Finance Committee
FY	Fiscal Year
FYP	Five-Year Plan
GAO	Government Accountability Office

GDP	Gross Domestic Product
GFS	Government Finance Statistics
GNHC	Gross National Happiness Commission
GIFT	Global Initiative on Fiscal Transparency
GPMD	Government Performance Management Division
GPMS	Government Performance Management System
GPPMD	Government Procurement and Property Management Division
GRP	Government Resource Planning
GRPB	Gender-Responsive Planning and Budgeting
GST	Goods and Services Tax
HRD	Human Resource Division
HLP	High Level Principles of GIFT
IAS	International Auditing Standards
IAU	Internal Audit Unit
IBP	International Budget Partnership
ICAB	Institute of Chartered Accountants of Bhutan
ICAI	Institute of Chartered Accountants of India
i-CAT	ISSAI Compliance Assessment Tool
ICT	Information Communication Technology
IDEA	Interactive Data Extraction and Analysis
IDI	INTOSAI Development Initiative
IFAC	International Federation of Accountants
IFMIS	Integrated Financial Management Information System
IFRS	International Financial Reporting Standards
IIA	Institute of Internal Auditors
IMF	International Monetary Fund
INTOSAI	International Organisation of Supreme Audit Institutions
IPPF	International Professional Practices Framework of IIA
IPSAS	International Public Sector Accounting Standards
ISSAIs	International Standards of Supreme Audit Institutions
IT	Information Technology
JICA	Japan International Cooperation Agency
LC	Letter of Credit
MaX	Managing for Excellence
MDF	Multi-Donor Fund
MFCC	Macroeconomic Framework Coordination Committee
MoF	Ministry of Finance
MoU	Memorandum of Understanding
MTDS	Medium Term Debt Strategy
MYRB	Multi-Year Rolling Budget
NPPF	National Pension and Provident Fund
OBI	Open Budget Index
OECD	Organisation for Economic Cooperation and Development

P4R	Program for Results
PAC	Public Accounts Committee
PEFA	Public Expenditure and Financial Accountability
PEMS	Public Expenditure Management System
PFA	Public Finance Act
PFM	Public Financial Management
PFM-GG	PFM-Governance Group
PI	Performance Indicator
PlaMS	Planning and Monitoring System
PMO	Prime Minister's Office
PLC	Project Letter of Credit
PRR	Procurement Rules and Regulations
RAA	Royal Audit Authority
RAMIS	Revenue Administration Management Information System
RBB	Results-Based Budgeting
RCSC	Royal Civil Service Commission
RGoB	Royal Government of Bhutan
RMA	Royal Monetary Authority
SAARC	South Asian Association for Regional Cooperation
SBDs	Standard Bidding Documents
SECO	State Secretariat for Economic Affairs - Economic Cooperation and Development
SAI-PMF	Supreme Audit Institution-Performance Management Framework
SOEs	State-Owned Enterprises
TA	Technical Assistance
TNA	Training Needs Assessment
TSA	Treasury Single Account
UNDP	United Nations Development Programme
WB	World Bank

At 31 December 2016, USD 1 = Nu.67.93
EUR 1 = Nu.71.88

Financial year (FY) runs from 1 July to 30 June

ACKNOWLEDGEMENTS

This report is provided by an international Public Financial Management (PFM) consultant (Tony Bennett) assisted by a local consultant (Tanya Gupta). It builds on the baseline provided by the Public Expenditure and Financial Accountability (PEFA) Performance Report, September 2016.

The consultants acknowledge and appreciate the excellent cooperation by RGoB officers, who facilitated the entire process and enabled completion of this report on time. In particular, thanks are due to the Hon'ble Finance Secretary, Dasho Nim Dorji, and to the Officiating Director General of the Department of Public Accounts, Mr Sonam Tobgyel, who spent a lot of time and effort in obtaining template inputs from the departments/divisions, arranging our interviews and providing necessary information.

Our consultations in Bhutan 12-21 December 2016 coincided with a World Bank (WB) mission to prepare for a Bhutan Multi Donor Fund (MDF) on PFM and run a workshop to disseminate the recent PEFA assessment. We had useful inputs from the World Bank mission, including Savinay Grover (Team Leader), Puneet Kapoor, Tanvir Hossain, Timila Shrestha and Franck Bessette, and from representatives of donor agencies who had offices in Thimphu, including the World Bank, Austrian Development Agency (ADA), Japan International Cooperation Agency (JICA), Asian Development Bank (ADB) and the International Monetary Fund (IMF) Regional Adviser. We are grateful to them all.

EXECUTIVE SUMMARY

Bhutan has been making exemplary progress in building its public financial management systems to provide fiscal discipline, rational allocation of resources in line with Five-Year Plans (FYP), and to support efficient public service. Externally validated assessments of its PFM in 2010 and 2016, using the Public Expenditure and Financial Accountability (PEFA) methodology based on internationally accepted standards, show the achievements over the last six years and the strengths and weaknesses of Bhutan's PFM. Comparison with other countries in the region shows that Bhutan is ahead of the regional average in most areas. However, there are weaknesses and risks in the PFM systems. The PFM Reform Strategy and Action Plan has been designed to consolidate recent reforms, close gaps, improve transparency and accountability, build domestic revenue, and integrate or interface several stand-alone computerized information systems.

Chapters 1 and 2 describe the context and present state of PFM. ***Chapter 3*** highlights on the need to continue and deepen PFM reforms and ***Chapter 4*** states the relevance of good PFM to good governance and the organizational arrangements in the Royal Government of Bhutan (RGoB) to manage changes. Using analyses from global experience, the sequence of reforms is examined and it is shown that Bhutan has met almost all the targets for ***core*** PFM functions and that it is following the recommended sequencing of PFM reforms. The risks to the planned reforms over the next five years are examined and rated as "*moderate*".

Chapter 5 covers each area of reform, and states the present position, observed weaknesses and risks, and the necessary corrective activities. With few exceptions, the activities are based on consultations with the responsible managers. Most of the content of the Action Plan at *Annex 4* has been initiated by the relevant managers, and some activities are already in progress. The main priorities at present are: the mobilization of domestic revenue to compensate for declining external grants and concessional loans; the stabilization, linking and securing of information systems; procurement; and PFM capacity development. Activities in financial reporting, budget management, debt management, asset management, internal audit, external audit and parliamentary committees are also included.

Some major reforms over the next five years will be the design and implementation of an Integrated Financial Management Information System (IFMIS), Implementation of Goods and Services Tax (GST), electronic Government Procurement (eGP) system, electronic payment (e-payment) systems to name few. The IFMIS is at an early stage and the roadmap of implementation is yet to be planned. From experience in other countries it can be estimated that this will take 4-7 years, or 3-6 years if a commercial off-the-shelf (COTS) system is customized for Bhutan. Until the new system is rolled out to all government agencies, existing systems will continue to be needed. Upgrades and additions are planned to Public Expenditure Management System (PEMS) including the introduction of an e-payment module, and to integrate with Revenue Administration Management Information System (RAMIS). Some changes may be postponed or cancelled if they are not worthwhile in the short run, such as introducing commitment reporting into PEMS.

Several reform activities are oriented to improve transparency, reflecting the increasing global attention to the potential for greater rapport and cooperation between government and its citizens. In Bhutan, though Internet penetration is low, civil society organizations and others with an interest in public services have access to RGoB websites. However, their content is still limited and there is currently little effective demand. Supply of information usually precedes demand.

The provisional estimated cost of the program is Nu 1,600-2,480 million (US$ 23-36 million), of which Nu 1,136-2,020 million (US$ 17-30 million) is due to the planned IFMIS and Goods and Services Tax (GST) information systems. The administrative costs of program management, monitoring and evaluation will need to be included.

Chapter 6 lists the present and prospective providers of funding. ***Chapter 7*** describes the management and implementation aspects of the strategy and ***Chapter 8*** identifies some possible risks and mitigation measures while implementing the strategy.

1 CONTEXT AND BACKGROUND

Good governance is a central theme of key strategic documents of Bhutan including the Five Year Plans, the Gross National Happiness (GNH) index and the Bhutan Vision 2020.

Within the good governance concept, public financial management (PFM) is a key element and Bhutan has a good record of implementing PFM reforms. Bhutan's PFM present reform agenda is based on the 2010 Public Expenditure and Financial Accountability (PEFA) assessment findings. Up to December 2016, key PFM reforms included the implementation of a medium-term fiscal framework and the creation of a Macroeconomic Framework Coordination Committee (MFCC); a National Internal Control Framework; Audit Resource Management System (ARMS); the Public Procurement Strategic Framework; a comprehensive action plan towards strengthening internal audit; and accounting and auditing standards. There has been development of computerized applications such as the Revenue Administration Management Information System (RAMIS), which is an integrated system for tax and non-tax revenue, and PFM systems such as Multi-Year Rolling Budget (MYRB), Public Expenditure Management System (PEMS) and Planning and Monitoring System (PlaMS), and implementation of an online fund transfer system for salaries. Recently, Bhutan issued the revised Financial Rules and Regulations (FRR 2016), implemented IFRS-based Bhutanese accounting standards (BAS), and initiated the process for establishing an Institute of Chartered Accountants of Bhutan (ICAB).

Two lessons have been learnt from reform experience: (i) the deeper the ownership of reforms by the Government, the better the results, and (ii) where the capacity of an implementing agency is limited, reforms should be phased in gradually.

2 PRESENT STATE OF PUBLIC FINANCIAL MANAGEMENT IN BHUTAN

A repeat PEFA assessment was made in 2015/16, based on the upgraded 2016 framework issued by the PEFA Secretariat[1]. Bhutan has received reasonable scores against most of the PEFA indicators (annex 1), and scored better than the South Asia regional average on almost all indicators. There are, however, certain areas where consolidation of recent reforms and new initiatives will require a sustained flow of resources and focused joint efforts of the Royal Government of Bhutan (RGoB) and its development partners (DPs).

The 2016 PEFA report summarizes the present state of PFM in terms of the three budget objectives:

[1] *Royal Government of Bhutan Ministry of Finance and World Bank Group, Public Financial Management Performance Report, September 2016. This covered only central government, as defined by PEFA and IMF-GFS, and for Bhutan, Dzongkhags, Gewogs and Thromdes were included in the central government assessment, as these were counted as deconcentrated entities of central government.*

Fiscal discipline is assisted by the comprehensive coverage of the RGoB's Public Expenditure Management System, orderly execution of the budget, good control over expenditure commitments and fiscal risks, risk-based administration of revenue, timely and reliable financial reporting, and continued improvements in external audit and legislative scrutiny. At the same time, fiscal discipline is undermined by some lack of public transparency in administrative classification in the budget and accounts, which would inform and facilitate public demand for better accountability. It is also reduced by the limited economic appraisal of projects before inclusion in the budget, as the projected social and economic costs and benefits of proposed projects cannot be exposed to wider scrutiny.

Strategic allocation of resources is assisted by a strong planning and budgeting system that translates the Five-Year Plans into sectoral strategies, programs and annual budgets within a rolling three-year fiscal framework. Favorable factors are the amount of time allowed to agencies to prepare their budgets, and the reliability of resource flows to service delivery units in accordance with annual budgets (at least where resources are domestically funded).

Efficient use of resources for service delivery is assisted by competitive procurement, which yields greater value for money. The recent adoption of a Performance Management System (PMS), based on Annual Performance Agreements (APA) with the Prime Minister, is potentially a powerful tool for cost control and efficiency savings, though it is not yet fully developed. Accountability would be significantly strengthened if they were published along with financial budgets and out-turns.

3 NEED TO CONTINUE AND DEEPEN PFM REFORMS

Good PFM is a necessary, if not sufficient, condition for most development outcomes[2]. PFM institutions and arrangements help build trust, promote financial sustainability, transparency and accountability in service delivery. The strengthened approach to PFM reform focuses on four core principles:

- *Fiscal discipline* – the effective control of the budget by setting ceilings on expenditure that are binding at the aggregate level and at the level of the spending entity;
- *Efficient resource allocation* - the ability to establish priorities within the budget and allocate resources across and within sectors based on these priorities;
- *Operational efficiency* – ensuring that public services are delivered in a way that produces the maximum volume and/or quality of services for the inputs used, and minimizes leakages; and
- *Transparency* – openness and communication to ensure accountability for the use of resources, making fiscal and budget information available to the public, and external scrutiny by independent agencies.

[2] *Andrew Lawson, Public Financial Management, Professional Development Reading Pack No. 6 (March 2015), GSRDC Applied Knowledge Series (http://www.gsdrc.org/professional-dev/public-financial-management/)*

Improved PFM systems have a positive indirect effect on service delivery[3]. Weaknesses in PFM systems can adversely affect service delivery; for instance if there is an absence of sustainable mechanisms for resource allocation to priorities and ensuring funds are used for intended purposes in the most economical and efficient manner, then it is unrealistic to expect sustained good results. On the other hand, 'better payments systems and better cash management make it more likely that payments can be made on time, including for wages, transfers, operations and management and investments[4]' thereby positively impacting service delivery to the ultimate beneficiaries.

Sector level initiatives are recognising the pivotal contribution of a strong PFM system to improved service delivery. Fragmented and donor-specific implementation arrangements, although intended to reduce fiduciary risks, increase risks of poor resource allocation, duplication of funding, weaker controls, excessive transaction costs, poor financing frameworks, inefficient monitoring, weak country ownership of interventions and poor transparency. Sectors are increasingly relying on use of country systems to mitigate such risks. For instance, the International Health Partnership[5] (IHP+) has identified PFM harmonization, alignment and strengthening as a key focus area and included PFM strengthening in the "Seven Behaviours" that need to change to improve development effectiveness. The commitment to improve effectiveness and quality of aid with an agreement to increase the use of country systems was echoed in the Paris Declaration (2005), Accra Agenda for Action (2008) and Busan Partnership (2011). This was followed by the Manila Consensus on PFM (2011) where partner countries and development partners agreed that "strengthening PFM is essential for effective and sustainable economic management and public service delivery".

Countries with better performing PFM systems have lower corruption perception indexes[6]. A strong PFM system allows implementation of effective expenditure controls with external and internal scrutiny and transparency of fiscal information – thereby creating an ecosystem to enable detection and penalisation of corruption in public spending. Corruption in PFM can occur at any stage of the budget cycle and involvement of stakeholders like media and Civil Service Organizations (CSO) can improve accountability, thereby reducing the opportunities for fraud. Transparency is the best defence against corruption, just as "sunlight is the best disinfectant" (Louis Brandeis).

Development partners have actively supported Bhutan's initiatives to strengthen PFM. The World Bank Group and other development partners, including the International Monetary Fund (IMF), European Union (EU), Austrian Development Agency (ADA), State Secretariat for Economic Affairs - Economic Cooperation and Development (SECO), United Nations Development Programme (UNDP) and Asian Development Bank (ADB) have been actively partnering, largely on a bilateral basis, to strengthen PFM in Bhutan. The interventions

[3] *'Linking PFM dimensions to development priorities'; Welham, Krause and Hedger (ODI)*
[4] *'PFM Reforms in post conflict countries: Synthesis Report'; World Bank 2012*
[5] *A group of partners committed to improving the health of citizens in developing countries*
[6] *'Exploring Corruption in PFM'; William Dorotinsky and Shilpa Pradhan, The Many Faces of Corruption, Tracking Vulnerabilities at the Sector Level,, The World Bank (2007)*

include:

- development of an e-payment gateway, strengthening the budget preparation process, treasury management and cash flow forecasting and macro-fiscal management (by the IMF);
- development of internal audit, system of inter-governmental fiscal transfers, implementation of Bhutan Accounting Standards and constitution of a PFM reform group (by the World Bank);
- development of RAMIS for the Department of Revenue and Customs (DRC) and an Audit Resource Management System (ARMS) for the Supreme Audit Institution, and technical support on debt sustainability analysis and macro-fiscal regulation (by the ADB);
- strengthening of the judiciary, CSO and the Royal Audit Authority (by ADA); and
- local government strengthening with support from the European Union.

Strengthening PFM is a continuous process for a growing country and Bhutan is geared towards taking the reform agenda to the next phase. Significant achievement is evident in PFM reforms, but Bhutan has an unfinished agenda and PFM challenges remain. The most crucial areas that call for focus and strengthening over a medium-term outlook include:

a) upgrading and linking the stand-alone PFM and performance management systems followed with introduction of a single integrated IFMIS, which itself needs to be preceded by business process re-engineering;
b) modernizing the country's revenue administration;
c) automation of public procurement systems for greater economy, efficiency and transparency;
d) developing capacity in budget analysis, allocative efficiency and program and performance budgeting;
e) enhancing transparency of fiscal information; and
f) other areas where attention is needed include improving in-year budget execution reports, strengthening internal audit, introducing commitment controls, consolidated reporting on fiscal risks and enhancing capabilities in cash and debt management.

Continuous thrust of reforms requires sustained resources and focused joint efforts of RGoB and its development partners. RGoB has set up a high-level group to steer the PFM Reform Program and to take it forward - the Public Financial Management Governance Group (PFM-GG). This will steer the PFM reform action plan of Bhutan and coordinate the resources required for its implementation. The PFM-GG will provide oversight and guidance and monitor implementation of the PFM reform action plan. Recently, the seeds for the establishment of a PFM Multi-Donor Fund (MDF) have been sown, led by the World Bank, EU and ADA with the objective of aligning the support of DPs in Bhutan for joint dialogue and efforts in implementing RGoB-owned PFM reform strategy. The MDF is expected to play a catalytic role in leveraging knowledge and financing by drawing on the best expertise in the field and working closely with a broad range of partners and stakeholders.

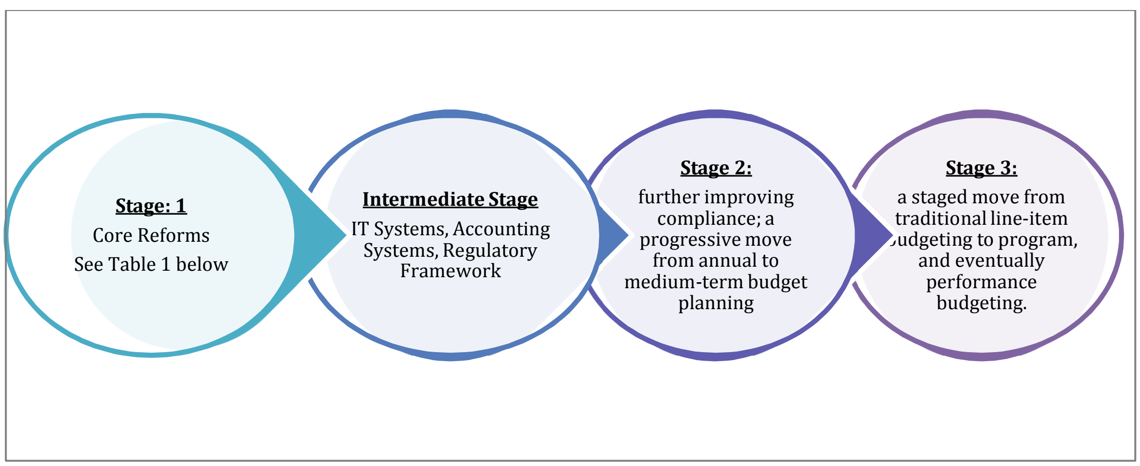
4 PRINCIPLES IN DEVELOPMENT OF PFM REFORM STRATEGY

A programmatic approach is needed for long-term PFM development. "In most circumstances, a programmatic approach is recommended because it captures the medium- to long-term nature of most significant reform efforts but allows flexibility to adjust to new information and changing circumstances as implementation of the reform program moves forward. A programmatic approach is especially useful when the implementation capacity of the government is uncertain, and it can be a useful means to manage risks associated with the program".[7] The proposed PFM strategy seeks to follow this approach.

PFM reforms need to be suitably sequenced in accordance with a country's economic and developmental priorities. Historical experience suggests that PFM reform actions should focus on three main management deliverables in the following order:

- first, putting in place controls to ensure some minimal level of financial compliance (fiscal control);
- secondly, establishing mechanisms to improve fiscal stability and sustainability;
- thirdly, introducing systems to promote efficiency and effectiveness in service delivery.

Before advancing to reforms aimed beyond core PFM functions, it is important to establish an adequate IT basis, accounting system, and regulatory framework, on which to anchor subsequent reforms. The benchmarks for attaining this PFM operational level are the establishment of a financial management information system, an accounting system that can at least meet international public sector accounting standards (IPSAS), and budget legislation that meets critical control standards and is adequately enforced. This is illustrated below.



With this as a platform, subsequent PFM reforms should be sequenced along three tracks: further improving compliance; a progressive move from annual to medium- term budget planning; and a staged move from traditional line item budgeting to program budgeting, and eventually performance budgeting. With sequencing priorities set in this order, the exact

[7] *World Bank (2003) Good Practices in Designing Development Policy Support Operations*

choice of reform actions and pace of moving along these three tracks should be determined by specific country circumstances and preferences.

The technical specification of reform actions required to improve the PFM system, (i.e., what is needed), must be consistent both with what is possible (implementable) and what is wanted (politically supported). Bringing all three dimensions into line is the role of change management, a crucial factor in reform success.[8]

Where is Bhutan on this evolutionary scale? Bhutan has good fiscal discipline through fairly comprehensive coverage of the budget, orderly execution, good control over expenditure commitments and fiscal risks, risk-based administration of revenue, timely and reliable financial reporting, and improved audit and legislative scrutiny. It has also instituted medium-term program planning in line with its Five-Year Plans and made substantial progress towards program and performance budgeting, though this remains a challenge. Bhutan appears to have passed stage 1 and is poised to engage in reforms at stages two and three. Annex 3 sets out the core PFM functions and the relevant PEFA indicators and targets (Diamond, op.cit.) This shows that, out of 25 indicators, Bhutan has achieved the targets in 22. The other three (PI-18, 22.2, 23) are being addressed. The table shows that Bhutan is following the recommended sequencing of PFM reforms.

The main priorities are: the mobilization of domestic revenue to compensate for declining external grants and concessional loans; the stabilization, linking and securing of information systems; procurement; and PFM capacity development. These priorities are being actively addressed (see below) and should continue to be addressed in tandem. In each area, the selection of weaknesses to be remedied and their prioritization depend on a thorough analysis of their risks to development and the reduction in risk that could be achieved, within the constraints of government *will* and government *capacity* to absorb reforms. This is better than focusing only on PEFA indicators with C and D scores. Activities can be ranked on their potential to reduce risk at least political cost. By analogy with capital budgeting, the 'portfolio' of activities is selected so as to maximize risk reduction. Ranking is a matter of subjective judgement. Particular attention should be paid to the assignment of responsibilities so as to respect the limits of individual and organizational implementation capacity. With DP support and PFM-GG coordination, no overall management constraints are expected. Reforms in any area need not be put on hold. Inevitably, in a comprehensive program, some areas of reform will progress faster than planned and others will be slower. Regular monitoring and re-planning within shifting constraints will be required, as has been practised in Bhutan PFM reform program in the past.

The main application of the concept of *interdependencies* is <u>within</u> reform areas, not amongst them. It is usually said that a government should first frame the policy in an area, then lay the legal framework, then establish the organization and systems to implement, monitor and

[8] *Jack Diamond (2013) Good Practice Note on Sequencing PFM Reforms, on PEFA.org website.*

evaluate results, then build human capacity just before each phase of implementation. However, even this logical sequence, each step dependent on the previous step, is not always followed. In Bhutan, for instance, procurement is functioning without an initial Act of Parliament.

This PFM Reform Program/Strategy covers the period 2017-21. Annex 4 sets out the Action Plan, divided over all substantive areas of reform, with planned activities, outputs, outcomes and estimated costs. Activities are classified as short term (up to two years to complete), medium term (2-5 years) and long term (over 5 years).

The overarching objective of this PFM Reform Strategy is to continue strengthening performance, transparency and accountability in public financial management.

Risks and mitigation of risks

The overall governance environment in Bhutan is strong and several public sector and PFM reforms have been successfully implemented and some are in progress. RGoB is committed to strengthen its accountability institutions. **The overall risk rating for this operation is moderate**. Some risks that may affect implementation and proposed mitigation measures are summarized below.

Table 1: Risks in the PFM Strategy and Action Plan, and their Mitigation

Risk	Assessment	Rating	Mitigation
Weakening commitment by RGoB	RGoB has a strong commitment to good governance and a strong PFM framework. Reforms have been led by RGoB since 2010. Political situation in Bhutan is stable and on PFM reforms there is a high level of agreement across party lines and commitment from RGoB at the highest level. Reform areas in the 2017-2021 Strategy and Action Plan have been requested by RGoB and reform activities will be led by RGoB.	Low	-
Insufficient funding	DPs have been strongly committed to support PFM Strengthening in Bhutan. These include World Bank, EU, ADA, SECO, ADB and UNDP. However, total projected funding requirements of up to $33 million	Moderate	Discussions have been held and will continue during implementation with other DPs in Bhutan for

	over the next 4 years are of a higher order than in the past.		contributing to the PFM Reform Strategy and some have shown interest in principle in joining the MDF. Previous experience has shown that donors join as the MDF progresses. Cabinet endorsement of the PFM Reform Strategy and Action Plan will strengthen DP support.

Monitoring and evaluation

Monitoring is primarily a responsibility of the host government. PFM-GG will monitor the implementation of the Strategy and Action Plan, with DPA as its Secretariat. DPA will receive inputs from PEMS, MYRB, GPMS and departmental directors and prepare progress reports quarterly and annually for consideration by PFM-GG. A PEFA repeat assessment and mid-term review will be carried out mid-2019 to assess progress in achievement of the objectives and make any necessary mid-course corrections. Reports will be shared with all concerned agencies of RGoB and with relevant DPs.

Performance will be monitored by the DPs through the above reports, supplemented by six-monthly missions organized by World Bank. The MDF Program Manager will prepare regular progress reports (including procurement, contract management and expenditure information) for all stakeholders to review progress. Before the termination of the program in 2021, there will be a full evaluation of the program organized and carried out jointly by RGoB (MoF) and DPs.

5 AREAS OF REFORM

5.1 Revenue administration

Bhutan's domestic revenue is estimated to be 13.2% of GDP in 2015/16, down from 15.2% in 2012/13. The original target of financing 85% of total spending from domestic revenues at the end of the 11th FYP will not be met (IMF Article IV consultation 2016). The target set by the Prime Minister in the Performance Agreement with the Minister of Finance for FY 2016/17 for an "excellent" rating is 17% of GDP or higher and a "very good" rating between 15% and 17%.

The IMF has underscored the need to limit tax exemptions, especially given the expected gradual phasing out of donor assistance and the need for higher social spending. RGoB estimates that tax exemptions and holidays result in a loss of revenue of up to 2% of GDP. The IMF recommends that new tax exemptions should be avoided, expiring exemptions should not be renewed, and existing exemptions should be phased out. To increase fiscal transparency, listing and costing all tax expenditures should become an integral part of the budget[9].

5.1.1 Implementing Goods and Services Taxation Regime

The main area of reform that DRC has initiated is the implementation of a Goods and Services Tax (GST), which will replace the Sales Tax. This is a challenging medium to long-term undertaking. DRC has set up a GST Team and GST is planned to be introduced from FY 2018/19. A strategic paper on implementation has been prepared and the project is estimated to cost around US$ 6 to 9 million over the next few years. The strategy paper explains the structure of the project, its timing, and estimated costs at the time it was prepared.[10] These are summarized as follows:

Table 2: Goods and Services Tax Project Structure

Component	Dates of start and finish	Estimated cost Nu. millions	Estimated cost US$ million
1. Legal norms and regulations	May 16-Dec 17	52.6	0.77
2. Business processes	Jan 17-Jun18	24.2	0.36
3. Automation	Jun 17-Jun 19	195.5	2.87
4. Taxpayer outreach	May 16-Feb 19	53.3	0.78
5. Institutional capacity building and change management	Jun 16-Jun 19	58.5	0.86
6. Project implementation	May 16-Jun 19	9.0	0.13
Total		**393.1**	**5.78**

The other areas of reform being pursued by DRC are in customs (post-clearance audit), the establishment of a new Revenue Intelligence Unit, the continued development of RAMIS, and capacity building. Total costs over 2017-21 of the Revenue Administration component are estimated at US$7.5 to 10.5 million or Nu 507 to 711 million.

[9] *Please cite the source*

[10] *DRC (undated) Strategy Paper: Introducing a Goods and Services Tax (2016-2018)*

5.1.2 Transition to an e-Collections Environment

5.2 Government Information systems

Currently the RGoB uses several stand-alone systems to cover various aspects of PFM, such as PEMS, MYRB, PlaMS, RAMIS, CS-DRMS (see Table 1 below). These were reviewed by Deloitte Touche Tohmatsu in 2014. Their report detailed a number of shortcomings in these systems[11], summarized in Annex 2. More recently, the IMF has advised on PEMS and the introduction of e-payments (see below).[12] The Department of Information Technology and Development (DITT) checks all proposed RGoB purchases of IT hardware and software to prevent duplication and ensure use of common data standards.[13]

Table 3: Fiscal and Performance Management Computer Systems

System	Status at December 2016	Managed by	Database content	Linkage with other systems	Issues
PEMS	Operational	DPA	Expenditure, incl. payroll	MYRB RMA	Most payments by cheque. User-defined reports difficult. Security & disaster recovery weak. Bank reconciliation mainly manual. No electronic linkage with NPPF
MYRB	Operational	DNB	Approved and revised budgets, actual expenditure	PEMS	

[11] *Deloitte Touche Tomatsu (2014) Review of PFM Software Systems in Bhutan*
A useful reference, fairly up-to-date in a fast changing IT environment, is World Bank (2014) A Handbook on FMIS Systems for Government – Practitioner's Guide, by Ali Hashim. This includes case studies of IFMIS implementation in Nepal (pp. 133-9) and Maldives (pp. 140-6).
[12] *IMF-FAD (March 2016) Bhutan: Simplifying the Treasury Single Account*
[13] *Ministry of Information & Communications, Department of Information Technology & Telecom (2015) Bhutan ICT Roadmap, May*

RAMIS	Operational	DRC	Tax and non-tax revenue	BoB	Grant management split between DMD and GNHC
CS-DRMS v2	Operational	DMD	External debt and grants	PEMS MYRB	Discrepancies in records Limited use of management tools
eGP	Under development (phase I)	GPPMD	Procurement data		
PlaMS	Operational	GNHC	FYP, annual work plans, budgets and actual outcomes	MYRB PEMS GPMS	
GPMS	Operational	GPMD	APAs and actual performance		
CSIS	Operational	RCSC	Personnel records		Divergence with payroll module of PEMS
MaX	Under test	RCSC	Individual performance targets and achievements, linked with GPMS		
IFMIS	Group being established to consider scope and modalities	GPMD/MoF	To be determined	To be determined	Funding

Other important RGoB systems affecting PFM include:

Civil Service Information System (CSIS)

The Royal Audit Authority (RAA) annual audit report and the PEFA assessment noted a lack of integration between personnel records (in CSIS) and payroll (in PEMS). The RGoB is exploring opportunities to integrate the two systems for seamless transition of data. Currently, the RCSC has taken the PEMS records and is in the process of initiating a manual reconciliation to assess the divergence. This exercise is expected to be completed by mid-

January 2017 and the way forward to integrate the information will be decided subsequently. The RGoB is simultaneously evaluating options of an integrated government reporting system and the linkage between personnel records and payroll.

A decision should also be taken on the separate development of agency HRM systems. MoF-HRD plans to develop a web-based system for PFM staff, who all fall under MoF, currently totaling 1,780. HRM is an agency responsibility, exercised within the RCSC rules. It is evidently necessary that HR sections in all agencies have reliable systems that meet their individual needs. MoF, for instance, has to manage not only the 1,680 regular staff, but also 358 "para-regulars", mainly artisans in DNP who are not in PFM positions. At present, HRD manages its staff through XL spreadsheets. Unless the CSIS is designed to allow MoF-HRD to access all its own staff records in the detail that they need, HRD should develop its own system, using Access or similar database package.[14]

Individual Performance Management System (MaX)

Since the 2016 PEFA assessment, RCSC has started developing a new performance management system, MaX - Managing for Excellence. This system is expected to link the individual performance scores of civil servants with the outputs in the GPMS system that produce the performance score of the agency and its head personnel. This application is currently in the testing phase and is expected to be rolled out in FY 2017/18.

Assets Management System

DNP's Division of Government Procurement and Property Management is developing a web-based inventory system, to be operational in FY 2016/17. Assets Management, like MYRB and RAMIS, should interface with PEMS (the general ledger) through a unified CoA.
The ideal situation for RGoB is to have a single general ledger function to support accounting and reporting for the whole of government.[15]

MoF wishes to integrate, interface or replace all these systems for efficient and effective financial control and reporting. Hence, under this initiative MoF is undertaking a diagnostic assessment of the current systems and processes to chart a roadmap to move to a modern Integrated Financial Management Information System (IFMIS).

[14] *For details, see MOF Project Document "institutional Strengthening of the Public Financial Management (PFM) Reforms". Total request is Nu 150 million. See also section 4.10.2 of this report on issues in capacity building.*

[15] *See IMF-FAD (2016) Bhutan: Modernization of Accounting and Chart of Accounts, paper by Mark Silins.*

5.2.1 Implementing an Integrated Financial Management Information System (IFMIS)

Following the Mid-term Review of the 11th Five-Year Plan, the Prime Minister endorsed the decision to initiate the development of a new centralized integrated system for effective planning, budgeting and monitoring, and the Government Performance Management Division of PMO has taken steps to set up a committee to advise on this.[16] Following setup of the IFMIS Committee, members could join the World Bank Community of Practice on IFMIS as a means of familiarizing themselves with IFMIS practices. The World Bank has suggested that a study tour may be undertaken to similar countries, then the RGoB could issue Invitations for Information so as to invite vendors to come and make presentations, which will be very helpful in obtaining information and updating the latest costing.

What is needed is a Government Resource Planning (GRP) solution that meets the following requirements:

- All government transactions managed in a common repository of fiscal data through a Treasury Single Account (TSA).
- Flexible chart of accounts (CoA)
- Provides fund, project, program and performance management.
- Flexible controls
- Enables outcome-oriented budgeting and, in the medium/long term, a phased transition to accrual accounting
- Modular implementation
- Expandable configuration of modules and functionality within each module
- Progressive activation.

The solution may be through bespoke development (like PEMS) or through a commercial off-the shelf (COTS) package, customized to the specific requirements of RGoB. An alternate solution would involve continuous strengthening and integrating[17] by adapting PEMS for the core functions of maintaining the general ledger and cash and expenditure management, with progressive addition of modules for revenue (based on an interface with RAMIS and an accounts receivable module), procurement requisition and purchase order module (interfaced with the eGP system, accounts payable module and asset management module), budget module (from MYRB), human resource and payroll module (interfaced with CSIS), debt module (interfaced with CS-DRMS), and performance module (interfaced with the GPMS).

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[16] *Letter from Director, DNB to all budget agencies 25 November 2016. Progress in development of this system is included in the APA targets for MoF in 2016/17.*

[17] *RGoB has proposed an integration model through the use of existing Enterprise Service Bus (based on WSO2 platform) and web Application Program Interfaces (APIs).*

Typical project activities are:

- Business process analysis and re-engineering (BPE)[18]
- Assuring the legal and institutional framework
- Specification of functional processes, organizational arrangements, budget classification structures, chart of accounts
- Development of an overall conceptual systems design
- Development of the technology design and architecture
- Procurement/ development of application software
- Parameterization/customization of software
- Data migration from existing systems
- Testing application software for functionality
- Development of operational procedures and manuals
- Training for users, administrators and beneficiaries (MoF, RAA, Parliamentary Committee members)
- Progressive roll out to all RGoB budget agencies
- Change Management

Development of a bespoke solution is likely to take 4-7 years, or 3-6 years for a COTS solution, and to cost $15,000 per COTS user, say $10-20 million. Annual recurrent costs would then be around 15% of the total investment cost (Hashim, op.cit. p.80-81).

Deloitte has suggested an Implementation Roadmap (Annex 5).

5.2.2 Implementing a PEMS module for e-payments

The RGoB is working towards implementation of an electronic payments (e-payment) system for government payments. An Electronic Fund Transfer and Clearing System (EFTCS) mechanism is already used to make salary payments in some ministries. The endeavor to implement an e-payment system for all payments is being pursued with technical support from the IMF through its resident advisor. The latter is working on preparing a roadmap on e-payments and transition. The advisor is also working on automation of bank reconciliation and simplification of the Letter of Credit/Project Letter of Credit (LC/PLC) system by discontinuing physical accounts and bringing in virtual accounts. The Royal Monetary

[18] *It may be possible to postpone BPE. Hashim (op.cit.) advises that most COTS packages already provide for standard best practice processes and it may be a good idea to actually use these as a starting point unless there is a specific legal requirement that needs to be fulfilled. In the case of several projects, it was found after embarking on a costly and time-consuming detailed BPE exercise that 90% of the business processes offered by the COTS solution were in accordance with the results of the detailed BP engineering exercise which took a very long time to complete. A lesson from this experience is the need to distinguish clearly between which part of the business process re-engineering is actually required prior to systems implementation, and which part can be best addressed by using the processes incorporated in the COTS system in use and which can be adjusted as systems implementation proceeds.*

Authority (RMA) is the central bank for settlement with other banks. For this purpose, RMA has an expert to advise on a clearance system called Immediate Payment Settlement. The IMF resident advisor is advising MoF on the systems requirements for input to PEMS.

The Financial Rules and Regulations (FRR 2016) will need to be amended to include provisions relating to e-payments and related matters.

The PEMS enhancement activity therefore includes development of the e-payment application, piloting the new system, training accountants in the new system and roll-out and release of the updated FRR. Inputs include:

- Consultancy services for preparation of the functional requirement specifications, suggested solution and hardware architecture, assistance in preparing bid documents, change management including re-defining roles and responsibilities, and support in selecting the systems integrator
- Consultancy services for preparation of the systems requirement specifications, development of the solution application for e-payments and roll out as per agreed plan
- Procurement of hardware for the e-payments solution.

The MoF is of the opinion that the consultancy services can be provided in-house. Accordingly, provision is made only for short-term consultancy services if they should be required, and the cost of additional PEMS hardware, provisionally estimated to cost Nu 30 million or US$ 0.5 million.

Total cost of the Information Systems component is estimated at US$12.4 to 22.4 million, or Nu. 845-1,525 million.

5.3 Financial Reporting Standards

5.3.1 International Public Sector Accounting Standards (IPSAS)

The Annual Financial Statements (AFS) on the budgetary operations of the RGoB are prepared by the DPA in accordance with the Public Finance Act, 2007 (PFA 2007) and Public Finance (Amendment) Act 2012 and the Financial Rules and Regulations, 2001 (FRR 2001, recently amended). The Finance and Accounting Manual of FRR 2001 specifies that the *G*overnment accounts shall be maintained on a cash basis and that the total receipts and expenditures of the Government during a financial year shall be the basis for preparation of the AFS. The Manual further specifies the form and content of the AFS. The AFS has been presented accordingly in a consistent format over several years.

The latest AFS are for the year ending June 2015. It was published on the RGoB website (www.mof.gov.bt) together with the report by the Auditor General dated 13 April 2016. The Statement of Responsibility, signed by the Finance Minister and the Director General DPA, states that the AFS have been prepared in accordance with the provisions of the Public Finance Act and the FRR 2001.The audit opinion is that the AFS complied with the law.

Weaknesses in the present system

The movement towards measurement of outputs and results has necessitated a parallel movement towards measures of expenditure that faithfully reflect the cost of input resources used in the production of outputs.

Cash accounting records only movements of cash - receipts in and payments out, and cash and bank balances. Separate systems have to be maintained for managing the public debt, revenue assessments, physical and financial assets, and other assets and liabilities. As these are outside the cash system (PEMS), and outside the scope of the annual budget, and are subject to errors and inconsistencies. Cash accounting is incomplete accounting. Accrual accounting, by contrast, brings all assets and liabilities to account, along with revenues and expenditures, in an integrated double entry system.

Accrual accounting reveals the true resource cost of each program and its outputs. This information is needed for four purposes, which are not met by cash accounting:

(i) *Cost control*, by comparing costs incurred by different providers, e.g., the cost of education per pupil in each dzongkhag or gewog, or the cost of resurfacing each grade of roads per kilometre. Where the output is standardised, its standard cost can be pre-defined - a powerful tool of control and cost reduction. Cost control on a cash basis is a blunt instrument, especially at a disaggregated level

(ii) Decisions on *contracting out* a service or output require information on the full cost of in-house production as against the cost of an outside contractor

(iii) Decisions on *user fees* e.g. for university tuition, where government policy is to recover the full cost of government service

(iv) Decisions on *resource allocation*, which require information on the true cost of alternative outputs.

Accrual accounting still provides all the traditional cash data, and this is needed as long as the basis of legislative appropriations continues to be cash, as in Bhutan. It is usually recommended that a country maintains its cash-based budget, even after it transitions to accrual accounting, at least until accrual accounting is well established and understood in all branches of government.

Despite its theoretical advantages, very few countries have fully transitioned from cash accounting to accrual accounting, though many advanced countries are attempting the move over a period of years. The main constraint is the lack of qualified accountants in the public sector. It is not recommended for Bhutan at present, but over the long term DPA could progressively move towards full accrual accounting, if it can attract sufficient qualified accountants.

International standards

The RGoB is interested in meeting international standards of accounting and financial reporting.[19] The International Public Sector Accounting Standards Board of the International Federation of Accountants (IFAC) is the relevant standard-setting body. **Two standards have been issued** - a single standard for cash-based accounting systems[20], and a set of 24 standards for accrual-based accounting systems based on the corresponding International Financial Reporting Standards (IFRS) for commercial entities.

The cash-based standard is currently under review. It has two parts: Part 1 lists the mandatory disclosures in AFS and Part 2 lists additional disclosures that are encouraged. At present, it is mandatory to consolidate the accounts of all government entities that are "controlled" by the reporting entity (RGoB), including extra-budgetary bodies like the NPPF and five Trust Funds, and public enterprises, both financial and non-financial. Around the world, this requirement has been the biggest single obstacle to meeting the standard. However, it is expected that IFAC/IPSASB will relax the mandatory requirements for compliance in 2017.[21]

In the past, DPA attempted to prepare the AFS for FY 2006/07 in compliance with the cash-based IPSAS, as a supplement to the AFS required by law. This was subject to capacity and information constraints and was not wholly successful, as it did not consolidate the financial statements of all entities under the control of RGoB, nor eliminate intra-entity transactions. The exercise has not been repeated.

The AFS cover all government budgetary bodies (constitutional bodies, autonomous bodies,[22] judiciary, ministries, dzongkhags, gewogs and thromdes). Revenue accounting is done by the Revenue Administration Management Information System (RAMIS) maintained

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[19] The DPA vision is to achieve an International Standard in Public Sector Accounting (www.mof.gov.bt) This is supported by the Auditor General.

[20] IFAC/IPSASB 2003, amended in 2006 and 2007.

[21] IPSASB issued an exposure draft (ED 61) in February 2016. See https://www.ifac.org/system/files/publications/files/IPSASB-Exposure-Draft-61-Marked-up-IPSAS-2.pdf This changed the consolidation requirements from "mandatory" to "encouraged". Another mandatory requirement, the reporting of donor grants and loans and the corresponding expenditures, even if these did not pass through government bank accounts, has also been removed from the mandatory list to the "encouraged" list. These changes to cash-IPSAS will make compliance far easier. IPSASB advises that the role the Cash Basis IPSAS is intended to play in the IPSASB's overall standards setting strategy is primarily as a step on the path to adoption of the accrual basis IPSASs, rather than as an end in itself.

[22] There are exceptions. The AFS contain only the transfers to central schools and the University of Bhutan, not their actual expenditures.

by the DRC. Expenditure details are obtained from the Public Expenditure Management System (PEMS) based on the accounting records maintained at agency level. The Budget Fund Account details are obtained from the records maintained by the Treasury Management Division of the DPA. The preparation of the AFS is presently a manual process of consolidating information from various systems and sources - RAMIS (DRC); MYRB (DNB); CS-DRMS (DMD, DPA); PlaMS (GNHC); PEMS (DPA); Public Enterprise Division, MoF; Bank of Bhutan; National Statistical Bureau.

The AFS contain a comparison of actual expenditure with original and revised budgets, and complete and detailed information on revenues, grants, loans and expenditures. They also include statements of the government equity portfolio in state-owned enterprises (SOEs), corporations and financial institutions, government guarantees, government outstanding debt etc. However, complete information on tangible and financial assets and liabilities is not provided in the AFS and is not supported by a cash flow statement. Though this is not required by the cash-IPSAS, it is good practice to include this information in the Notes to the Accounts. Their omission affects the PEFA score.

Financial statements covering all budgetary units are prepared annually including a comparison with the budget and information on revenue, expenditure and cash balances. The AFS already meet the main requirements of cash-IPSAS, viz. a statement of cash receipts and payments (Table 2 of the AFS), and a comparison of actual receipts and payments with the approved and revised budgets (Table 1 of the AFS). In fact, the AFS provide extensive additional disclosures (the AFS 2014/15 run to 321 pages). Under the cash-IPSAS these additional disclosures would remain as Notes to the AFS.

A preliminary analysis shows that the present AFS do not quite meet the cash-IPSAS (as expected to be revised in 2017).[23] There are gaps as follows:

- The AFS do not include some off-budget receipts and payments, such as grants and loans by development partners for certain scholarships, hydro-power projects and Dantak road construction (AFS 2014/15, p.19/20). The latter are large amounts that materially affect budget aggregates: omitting them distorts the overall fiscal picture in the years affected. Disaggregated data (including/excluding HEP) and explanations would avoid misinterpretation of the budget and AFS.
- Information about the reporting entity (RGoB), e.g., what agencies are included in the consolidated statements and any changes from the previous year (section 1.4.7).
- Disclosure of relevant accounting policies, such as the treatment of foreign currency receipts and payments, and correction of errors (section 1.5). The Notes to the Accounts 2013/14 included explanation of the accounting for Treasury Bills (which were

[23] *A more detailed analysis is provided by IMF-FAD, Modernization of Accounting and the Chart of Accounts, by Mark Silins, March 2016.*

appropriately reported on a net basis). The AFS 2014/15 did not include any Notes to the Accounts.

- The Statement of Receipts and Payments should include comparative figures for the previous year.
- Material differences between original and revised budgets, and between revised budgets and actual outcomes, should be explained
- Any restrictions on the use of RGoB cash balances, such as amounts tied to particular uses
- Previous year comparative data should be re-stated for the effect of any errors found in the current year (such as errors found by RAA and not corrected in the current year).

As a thorough gap analysis has recently been done by IMF-FAD with regard to cash-basis IPSAS, what is now needed is technical assistance to lay out a detailed roadmap for implementation based on the recommendations made in the report. TA could be provided cost-effectively in the form of a visiting regional consultant, experienced in IPSAS.

5.3.2 Accounting and Auditing Standards Board of Bhutan (AASBB)

AASBB administration was set up in July 2010 as a standard setter and regulator. So far, it has set Bhutanese Accounting Standards (BAS) for private sector firms and public enterprises, based on International Financial Reporting Standards (IFRS) and International Auditing Standards (IAS).

AASBB has prepared a road map for implementation of BAS in three phases. In phase 1, all listed companies, financial institutions, DHI owned and linked companies are required to implement BAS from January 2013. Nine BAS have been issued to be implemented from 2016 and ten more from 2018. However, the AASBB Act is with the Cabinet and is yet to be tabled in Parliament. AASBB authority at present is implied from the Public Finance Act 2007. The World Bank is supporting technical assistance in this field.

For the non-commercial government sector, in line with the Act, AASBB is also considered the concerned authority for setting standards. Therefore, **AASBB plans to lead and facilitate cash-basis IPSAS implementation by the Government in consultation with MoF (DPA).** An expert on IPSAS should be brought in to advise AASBB and DPA.

AASBB is also in the process of setting up the Institute of Chartered Accountants of Bhutan (ICAB). AASBB has signed a Memorandum of Understanding with the Institute of Chartered Accountants of India (ICAI) to provide support for setting up ICAB, with technical assistance from World Bank under the current PFM Reform Program. RCSC has approved the AASBB organization chart with three divisions, for Financial Reporting Standards (covering BAS and standards for small and medium enterprises), Auditing and Assurance Standards, and Public Sector Accounting and Auditing, respectively. Three divisional Chiefs and three Deputy Chiefs will be recruited followed by other staff on passage of the Act. AASBB will have a Regulatory Committee of five members. This support should continue.

5.3.3 Institute of Chartered Accountants of Bhutan (ICAB)

There is a growing gap between the supply of professional accountants and the demand. The gap is being met by accountancy firms from other countries, particularly India. AASBB is working with the Institute of Chartered Accountants of India (ICAI) and the World Bank to set up ICAB. A legal bill has been drafted but not yet legislated. The Act will give ICAB powers to develop the curriculum, provide certification for professional accountants and to regulate its members. The professional curriculum is 90% developed. It is not yet decided whether ICAB will provide training for its examinations. This institution-building support should also continue.

The estimated cost of the Financial Reporting component is US$ 0.9million or Nu. 60 million.

5.4 Budget Management

Bhutan maintains a dual budget, with separate resource envelopes, procedures and classifications for recurrent and capital expenditures. The rationale for dual budgeting is based on the false premise that only capital projects are productive, so recurrent expenditure must be squeezed to allow more resources to go into investment. The result is the under-funding of operations and maintenance, low utilization of existing capital assets, and under-spending of optimistic capital budgets. In fact, all resource allocations are investments and are subject to the same cost-benefit criterion. Many recurrent activities have higher benefit/cost ratios than some capital projects. It is recommended that the RGoB consider the advantages of moving to a unified budget, which many countries have already done.[24]

Department of National Budget (DNB) has identified the need for reforms in the areas of budget formulation (documentation), execution and results-based budgeting. With regard to budget formulation, the FYPs prepared by the GNHC are detailed down to sub-activity level. The annual budget goes down to this level, with an economic classification (broad head and object code) of 70 line items. Parliament does not need such detail. In most countries, legislative approval is given to the total expenditure for each agency or (better) for each program. Within each program, the executive should have flexibility to make transfers (virements) between activities and between objects of expenditure. DNB propose a higher-level budget, which would reduce the number of releases (letters of credit and project letters of credit), while maintaining the full detail of actual expenditure in PEMS. This should also be supported.

[24] *See World Bank (1998) Public Expenditure Management Handbook, p.53. "The dual budget may be the single most important culprit in the failure to link planning, policy and budgeting, and poor budgetary outcomes".*

Issues on budget classification are mentioned in the March 2016 IMF report on the chart of accounts, and could be addressed in the IFMIS component.

The annual Budget Report to Parliament is of a high standard, but does not include a classification by agency, only economic and functional classifications. In contrast, quarterly Budget Situation Reports and AFS include a full administrative classification. The Budget Situation Reports, however, are not published on the MoF website. Though public demand for fiscal information is low, the supply of fiscal information itself generates demand. It is planned to start publishing Budget Situation Reports.

The introduction of results-based budgeting (RBB) through Annual Performance Agreements and a Government Performance Management system in the PMO is a major advance, which needs a period of years to be consolidated. DNB has requested training of budget officers in RBB and in the use of MYRB to generate user-defined reports in Excel format. DNB has 62 staff in position. Professional training is provided in the Action Plan in proportion to numbers in each Department.

Other areas of interest are stakeholder participation in budget formulation, and gender and environmental impact budgets. Some progress has been made on gender-responsive budgets (see section 4.10.3 below). There is no "Citizens' Budget", though the Budget Report is published in Dzongkha as well as English.
The estimated cost of this component is US$ 0.3 million or Nu 21 million.

Department of Macroeconomic Affairs (DMEA) has proposed reforms in macroeconomic and fiscal forecasting procedures. At present, the fiscal table is based on IMF-GFSM 1986 and it is desired to upgrade to GFSM 2014. This is supported.

5.5 Debt Management

The Debt Management Division (DMD) has recently been brought under the newly created Department of Macroeconomic Affairs for better synergy. The DMD has a staff of 12. A Debt Management Performance Assessment (DeMPA) for Bhutan was conducted in 2010 and a reform plan was formulated and implemented with support from JICA. A Debt Sustainability Assessment (DSA) was also conducted at that time and is updated annually as part of IMF's Article IV consultation. DMD is also using the debt management application CS-DRMS and has transitioned to version 2, one of the earliest countries to do so. However, CS-DRMS is primarily being used for debt data recording and reporting and the management features of the application are not yet being used. Hydro-power debt data is also recorded in CS-DRMS[25]. A

[25] *The DMD uses the core functionalities of CS-DRMS to maintain the loan portfolio including on-lending and recording transactions of disbursement and debt service payments, but other features such as portfolio analysis, scenario analysis, forecasting etc. are not used and are done manually. Currently, only one official knows how to operate basic functions of the system and there is no one to carry out the work in his/ her absence.*

Public Debt Management Policy was finalized in September 2016 and published. The focus of the policy is on external debt and development of the market for internal debt.

New instruments of internal debt, such as Treasury Bonds, are under discussion. DMEA has proposed an activity to develop a domestic capital market. Budget proposals should not then show a resource gap.

The APA for MoF in 2016/17 includes targets for non-hydro debt (< 35% of GDP), debt service (<25% of exports), and to develop an economic early warning system. The PEFA indicator PI-13 on debt management was rated "B" in the 2016 PEFA assessment of Bhutan. Debt data records are complete, regularly updated and reconciled and are of high integrity[26]. Debt management and statistical reports are produced quarterly (dimension rated "A"). The Minister of Finance approves debt issues and guarantees against transparent criteria, subject to approval of the Cabinet (dimension rated "A"). A medium-term Debt Management Strategy (MTDS) has been prepared (with support from ADB) over a horizon of five years (dimension rated only "D" as the MDTS is not reported publicly). It is planned to update the MTDS in 2017 based on the IMF/World Bank guidelines.

To further strengthen debt management and to build in-house capabilities, DMD has proposed the following reforms under the PFM-MDF over the period 2017-2021.

- Develop in-house capabilities to independently prepare a Medium-Term Debt Management Strategy
- Develop in-house capabilities to independently conduct a Debt Sustainability Assessment
- Enhance in-house capabilities for full utilization of the CS-DRMS application including the management features and train more staff in the use of CS-DRMS (to be done by consultants accredited by the Commonwealth Secretariat)
- Training in loan negotiations

They would entail consultancy services for providing the training and related costs on travel and are estimated to cost US$ 0.14 million, or Nu 10 million.

5.6 Procurement

As much as 70% of all Bhutan public spending takes place through the public procurement system. A well-functioning procurement system ensures that money is used effectively in acquiring inputs and achieving value for money in the delivery of programs and services by the government. Moreover, it should facilitate development of procurement in the private sector, which also benefits RGoB.

[26] *Though some discrepancies and outlier data were mentioned in the 2016 Crown Agents report on phase 3 of the JICA supported project in DDM.*

In Bhutan, procurement is decentralized to procurement units in all budgetary agencies. At the centre, the Government Procurement and Property Management Division (GPPMD) of the MoF sets policy, and monitors procurement practice against the Procurement Rules and Regulations (PRR 2009). **The PRR are well developed and mainly implemented, but are not yet legitimized by Act of Parliament.** A Procurement Act is under discussion and has been backed by the National Council Good Governance Committee.[27] The passing of the Act would change the perception of public procurement and strengthen enforcement of regulations under the Act.

The PRR are under continuous change in accordance with the needs of good governance and the business environment. GPPMD plans to introduce standard bidding documents for **framework contracts** for common use goods, for ICT equipment and health sector goods, and review all existing SBDs.

A major reform, already well advanced with support from the IDF, is the introduction of an electronic government procurement system (eGP), to be accessed through the Internet. GPPMD has a procurement portal (www.egp.gov.bt) which will enable all central government RGoB agencies to publish their invitations to tender, changes, contract awards, contract progress and payments through e-payment. This will obsolete the procurement systems of individual agencies. It will need to fit within and be interfaced with any IFMIS development.

Phase I of eGP included design of the eGP home page, registration of suppliers/contractors, tendering, debarment, annual agency procurement plans, reporting, administration, e-learning, procurement process re-engineering, and development of a communication strategy for wider understanding of eGP.

Phase II includes design of the complaints/grievance procedure through eGP, integration with the Construction Development Board system, and enhancement of the registration and reporting processes.

Phase III will include design and implementation of price catalogues, purchase orders, online evaluation, contract management, reverse auction (in which suppliers compete by under-bidding each other), e-invoicing, system integration to e-payment, reporting, and training of users, both RGoB officers and private sector suppliers, contractors and consultants.

The GPPMD is also responsible under the PRR for capacity building and professionalization of the procurement cadre. Apart from specific training in the use of eGP, the procurement cadre requires general professional training in procurement, both among GPPMD officers and procurement officers in line agencies. It is planned to develop certificate courses and a degree course through the Royal Institute of Management and the Royal

[27] *Reported in Kuensel 2 December 2016.*

University of Bhutan. The World Bank Procurement Certificate Course (MOOC) will be localized and implemented also. Selected officers will be offered the opportunity for professional training for the UK Chartered Institute of Procurement and Supply (CIPS) diplomas.

The estimated cost of this component is US$2 million or Nu. 139 million.

5.7 Strengthening Accountability and Oversight Institutions

5.7.1 Internal audit

Internal audit is the first line of defence in safeguarding assets and preventing and detecting errors, fraud and waste. While primary responsibility remains with line managers to execute their functions in accordance with the legal and ethical framework, internal auditors exercise oversight on compliance with the rules, and the achievement of the planned outputs and outcomes. Internal audit, being a management service inside budget agencies, is in the position of being able to exercise on-the-spot checks and provide early warnings to management and advice on remedial actions.

The internal audit function was instituted in 2000 as part of the Good Governance agenda. The RGoB has taken initiatives to strengthen public internal audit through the Central Coordinating Agency (CCA) for Internal Audit in MoF including development of an internal audit charter, internal audit manual and capacity building and certification of internal auditors. The World Bank has provided technical assistance.

The CCA works as a dedicated body for management of the internal audit function, with responsibilities for the professional development of internal auditors and overall coordination. Individual Internal Audit Units (IAUs) are established in the agencies. This structure ensures functional independence of the internal auditors with uniformity and consistency across different IAUs.

The PEFA indicator PI-26 on internal audit effectiveness was rated "C+" in the 2016 assessment. This is the same as in 2010 despite an increase in coverage. Internal audit is operational in 32 government entities (10 line ministries, all 20 dzongkhags and 2 autonomous bodies) covering 89% of all expenditure. All revenue is collected by DRC. Although there is no dedicated IAU in the DRC, it is covered by the IAU under MoF (internal audit coverage was rated "B" as some autonomous agencies do not have IAUs). However, the function is primarily focused on financial compliance with less emphasis on evaluation of the adequacy and effectiveness of internal controls (the nature of audit was rated "C'). Planned audits are completed and reports distributed to appropriate parties (implementation and reporting was rated "A"), but effectiveness is diluted as management provides only a partial response to internal audit findings (rated "C").

For internal audit recommendations to be more effective, internal auditors need a management perspective. They need to mature from a narrow focus on compliance with FRR to a wider concern with the achievement of agency plans and APA objectives within the internal control framework. This needs training not only in the regulations, but also in systems and business processes and how they can be strengthened to reduce risk and aid the achievement of agency goals. The competency framework could also include some specializations, such as IT, procurement and project management.

The International Professional Practices Framework (IPPF) of the Institute of Internal Auditors (IIA) have already been incorporated in the Internal Audit Manual and CCA has approached IIA for formal endorsement of these standards for use in RGoB. Internal audit staff participated in a quality assurance workshop at the IIA Malaysia, and the CCA intends to assume responsibility for quality assurance in the future. Five internal auditors have passed the CIA/CGAP certification of the IIA. Five more internal auditors will be taking the CGAP examination in December 2016. A gap analysis in competencies in internal audit staff and an external assessment of the function is being planned. In 2015/16, CCA undertook a thematic audit on procurement and for 2016/17, a human resource management audit has been planned in collaboration with the Royal Civil Service Commission (RCSC).

CCA has prepared its first annual internal audit report for 2014/15 covering the work undertaken during the year. The report analyses the 402 audit findings noted in 109 audit engagements in the year 2014/15. About 12% were due to systemic deficiencies and 88% related to non-compliance, mainly financial non-compliance. The report serves as a self-assessment of the internal audit function and is an indication of CCA’s reform orientation and commitment to protect and add value to the respective agencies. In addition, CCA organizes an annual internal auditors conference to promote peer-to-peer learning among the various IAUs.

The function, however, continues to suffer from staff vacancies and RCSC has agreed to recruit more staff. As against 53 sanctioned positions, current actual staff in internal audit are around 42. CCA has prepared a Capacity Development Plan. The function also lacks non-financial technical staff such as engineers and doctors to undertake specialized audits: there is a need to open the function to non-finance staff. The mission was also told that specially trained internal audit staff leave the services of RGoB. As internal audit is not a separate cadre[28] with its own promotion ladder, it does not attract civil servants despite an incentive being paid.

To further strengthen internal audit and enhance audit capabilities, CCA has prepared a Capacity Development Plan and proposed the following activities under the PFM-MDF:

[28] *Internal audit has been categorized as a Major Occupational Group (MOG).*

- Training of 40 internal auditors at levels 1-3 over a period of 2 years in accordance with IIA's professional competency framework for internal auditors at the IIA Malaysia.
- Certification of 30 internal auditors in Government Auditing – Certified Government Auditing Professional, through IIA over a period of 4 years.
- Facilitating three internal auditors for Master's Degree in Internal Audit
- Acquisition of a standard off-the-shelf audit management software package, such as ACL or MKinsight, and training in its use.

These activities would entail consultancy services for providing the training and related costs on travel and cost of software (one-time license cost). It might be considerably more cost-effective to bring two or three IIA Malaysia trainers to Bhutan than send 40 internal auditors to Malaysia. IIA Malaysia might also customize their training materials for greater relevance in Bhutan. The estimated cost is $ 0.3 mn or Nu. 20.4 mn.

Collaboration with the RAA is missing from the CCA proposal. The possibilities of sharing the RAA audit management software were discussed in the World Bank MDF Support Mission December 2016.

Strengthening of quality control within the internal audit units is another area of reform that should be taken up. Provision is made in the Action Plan for setting up a Quality Assurance unit in CCA. Surprisingly, the internal auditors across various agencies do not have direct access to PEMS. The possibility of providing them 'read-only' access should be explored to reduce their dependency on agency staff for access to information and enhance the independence and efficiency of their operations.

The estimated cost of the Internal Audit component is US$ 0.5 miliion or Nu. 34 million.

5.7.2 External audit

In the 21st century, accountability and transparency are key to advancing good governance, and supreme audit institutions (SAIs) play a critical role in improving government performance. The current five-year plan document (FY2013-2018) acknowledges the importance of the Royal Audit Authority and states: "To ensure economy, efficiency and effectiveness in use of public resources, annual audit is carried out by the Royal Audit Authority (RAA), a supreme audit institution and a constitutional body that functions independently and reports directly to the Parliament". **However, its effective functioning is constrained by lack of proper infrastructure facilities, human resources and efficient systems.** Strengthening the RAA is a priority.

RAA has launched its Strategic Plan for 2015-2020 with a strong focus on capacity building**.** **RAA is presently implementing the International Standards of Supreme Audit Institution (ISSAI)** (under TA from World Bank) and a statement of commitment for the 3i program has been signed (in April 2016) with the INTOSAI Development Initiative (IDI). A mapping exercise using the ISSAI Compliance Assessment Tool (i-CAT) has been completed and the audit methodologies in the financial, compliance and performance audit manuals have been submitted to the IDI for review. The performance indicator for this activity will be the percentage of audits completed that are ISSAI-compliant.

RAA is also using computerized applications - the Audit Clearance System (ACL), the Audit Information Management System (AIMS) and the Audit Resource Management System (ARMS). These are presently not integrated with other PFM systems. ARMS is an application developed in house, based on own practices aligned to risk-based audit methodology and this will be aligned with ISSAIs. RAA intends to improve capacity of its auditors by providing audit tools such as IDEA. At present 99% of RAA audit staff have a financial background. There is one professional accountant and one engineer. RAA is looking for ways of accessing other skills such as teachers and doctors to provide technical support.

Other recent developments: RAA is piloting a Financial Resource Management Assessment Index in 5 dzongkhags; five of its staff are INTOSAI-accredited trainers and two are ASOSAI-accredited Trainers of Trainees; RAA is on the INTOSAI working group on Environment Audit and IT Audit; it collaborates in trans-regional audits in forestry, disaster management and debt. RAA is also contemplating collaboration with Internal Audit and enter MoUs to avoid duplication of work (though RAA has concerns over the independence of internal audit and its relationship with management). It has formulated an Audit Outsourcing Policy for empanelment of auditors. An interesting initiative is **Citizen Participatory Audit**, in which audit teams are assisted by selected community members or organizationss. This has been supported by World Bank in the Philippines. In RAA, it is still at the conceptual stage. A manual is being drafted.

The PEFA indicator PI-30 External Audit has been rated as "B+" in the 2016 PEFA assessment. The RAA's audit covers more than 75% of expenditure and revenue of central government using national standards (dimension rated "B"). Audit reports are submitted to legislature within 6 months from receipt of the financial reports (dimension rated B) and there is strong evidence of follow up of audit findings by the executive (dimension rated "A"). The RAA's independence is established in the constitution with independence in planning and unrestricted access to records and information (dimension rated "B").

The SAI PMF report of 2015 highlighted the existing weaknesses such as shortages in audit staff skills and knowledge[29]. As of now RAA has an acute shortage of professionals such as certified accountants.

[29] *SAI PMF report, p.12*

To strengthen its audit capabilities, RAA has proposed the following interventions under the PFM-MDF over the period 2017-2021.

- Acquiring CPA professional qualification for 20 RAA staff (in five years' period) through distance education from CPA Australia.
- Acquiring 10 CISA or DISA, 10 Accounting Technician (AAT) professional qualification for RAA staff.
- Training on environmental auditing and environmental management system for 2 auditors.
- Training on Environmental Impact Assessment for 2 auditors
- Training on assessing IT controls for 2 auditors
- Training on Geographic Information System for 4 auditors.
- Participation of 10 RAA staff (2 per year for 5 years) in the 4 months International Auditor Fellowship Program of the Government Accountability Office (GAO) of the United States Government[30].
- Developing a conceptual framework in "Citizen Participatory Audits" and piloting the framework
- Acquisition of IDEA, ACL or equivalent audit tool including cost of licenses and training.
- Training of RAA's auditors in IPSAS, SDGs audit, infrastructure audit, procurement in construction audit, works contract audits and other specialized audits such as auditing computerized accounting systems and e-government systems
- Setting up a quality assurance mechanism and organizational structure
- Setting up a time recording system

These activities would entail consultancy services for providing the training and related costs on travel and are estimated to cost US$ 0.5 million or Nu. 34 million.

5.7.3 Parliamentary Oversight

A parliamentary committee– the Finance Committee (FC) – was constituted in FY 2014/15 with nine members to take up review of the budget before it is debated and passed in Parliament. Two out of the nine members have a background in finance. Terms of reference have been approved for the FC. In its two years of existence, the FC has presented three reports on the budget, macro-economic outlook and budget execution.

[30] *The fellowship program focuses on accountability, organizational transformation, performance audit, and evaluation. The program is designed to strengthen the ability of SAIs to fulfil their missions and enhance accountability and governance. Graduates take their new experiences and learning back to their SAIs and leverage that knowledge by sharing it with their colleagues. Training is given on various contemporary issues such as performance audit, risk management, internal controls and leadership. In addition, the participants prepare a strategy paper to introduce a plan or a project to their SAIs upon return. RAA is invited to nominate up to two middle-to-senior level officers a year for the program. Tuition fees are waived.*

Since the FC was set up, more time has been allowed for it to review the budget and provide its recommendations, but it is still rather short (two weeks for FY 2015/16). The international standard is that the executive presents the budget to Parliament at least two months before the start of the budget year, i.e, by 1 May. Nevertheless, the budget is normally passed before the FY starts on 1 July.

Legislative scrutiny could be further enhanced if procedures for public consultation were also developed and implemented.

Ex-post scrutiny of audit reports is carried out by the Public Accounts Committee (PAC), which has five members. Some members are also members of the FC, which facilitates liaison between the two committees. All audit reports are divided between the members of the PAC for review. Hearings are based on the seriousness and materiality of audit findings. The PAC chair says that his committee covers all agencies that are adversely reported by RAA. Hearings are public where audit findings are serious.

PAC reports are discussed in Parliament and published. Recently, the PAC has concluded six public hearings covering five ministries and one municipal corporation. For instance, the PAC is reviewing the RAA IT audit report on PEMS and audit report on Punatshangchhu hydro-electric project conducted jointly by Bhutan and India. Review could be enhanced if technical assistance to the PAC were increased. The PAC members have also been on study tours to India and Malaysia to learn about good practices in legislative scrutiny.

Both the committees have expressed need for support for capacity building as follows:

- Capacity building of the members of the FC and PAC particularly in review of fiscal policies, medium term fiscal forecasts and priorities and performance audit reports
- Capacity building of the secretariat to the FC and PAC including the Research Officers
- Increased technical support to the PAC for deeper review of audit reports

These activities would entail consultancy services and are estimated to cost US$ 0.1 million or Nu.7 million.

5.8 Cross-cutting issues

5.8.1 Transparency

In recent years, fiscal transparency has become an integral part of a broader Open Government agenda and a well-established part of good public financial management. Fiscal transparency aims to improve accountability and government performance by combining transparency with public participation. This enables citizens and civil society organizations to contribute ideas and information to the public sector and collaborate through partnerships with stakeholders in decision-making when implementing public policy. Open government has important implications for public expenditure management, requiring greater engagement of civil society throughout the budget process.

The Global Initiative on Fiscal Transparency (GIFT) after intensive consultation issued a set of ten high-level principles (HLPs). These were endorsed by the UN (December 2012). Standard setting bodies such as the IMF (*see www.imf.org/fiscaltransparency*), OECD (Best Budget Practices) and the International Budget Partnership (IBP) have substantially aligned their standards to the HLP.

The IBP is a CSO dedicated to promoting open, participatory, and accountable public budgeting. It launched its *Open Budget Index* (OBI) in 2006. This assessment tool draws on indicators used in the *IMF Code* and the *OECD Best Practices*, focusing on the availability of key budget reports and the extent to which there are opportunities for citizen engagement in the budget process through consultations, complaint mechanisms and the publication of simplified, citizen-friendly documents at key points in the budget cycle. Data is collected by CSOs in each country in an *Open Budget Survey* every two years and verified by IBP. The index, which covered 102 countries in 2015, ranks countries by their performance against a composite indicator of budget transparency.[31] The OBI is a powerful tool as it highlights relative cross-country performance in a way that can easily be communicated. IBP also uses the OBI as a diagnostic tool to identify areas where governments can improve transparency and to inform discussions of CSOs with the authorities on fiscal transparency issues.

A recent initiative supported by Policy and Planning Division of MoF, currently being transferred to the new Department of Macro-economic Affairs (DMEA), is the implementation of BOOST, a tool for budget transparency sponsored by World Bank. This translates budget data, as in PEMS, into a form that can be accessed conveniently for analysis by means of an "Open Budgets Portal".

Bhutan fiscal systems and databases have been developed as in other countries primarily to meet the internal needs of government. Their potential for raising citizen and taxpayer support through sharing of information has not been fully appreciated. The new PEFA framework (on which Bhutan's 2016 assessment was made) also reflects this increased global attention to public transparency. 14 out of the 31 indicators require public access to government documents and processes as part of the scoring criteria. Several PEFA indicators could be scored higher if existing internal information were posted in a timely way onto government websites.[32] Scores on PEFA indicators 6, 8, 9, 11, 18, 22 and 28 could be raised to B or higher almost immediately by executive decision with very little use of resources and these are "quick wins" which RGoB could achieve in a short time.

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[31] *See survey.internationalbudget.org/ In the 2015 survey, Bangladesh got an OBI score of 56, India 46, Sri Lanka 39 and Nepal only 24. Bhutan is not a reporting country.*

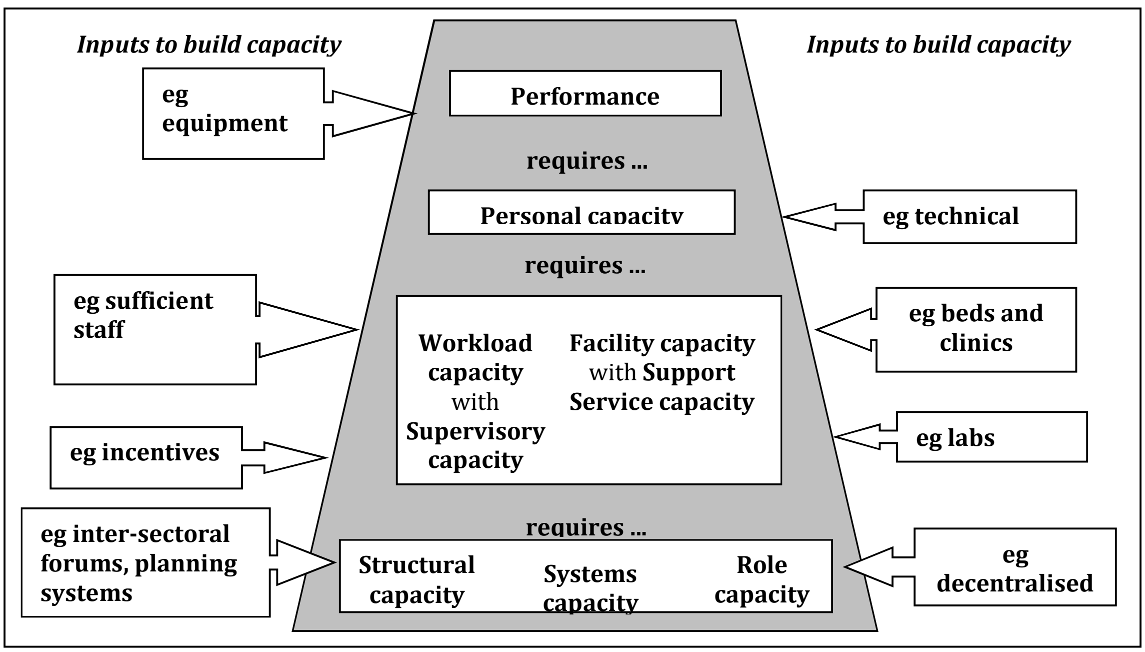
[32] *Scores on PEFA indicators 6, 8, 9, 11, 18, 22 and 28 could be raised to B or higher almost immediately by executive decision with very little use of resources.*

5.8.2 Capacity building

The pyramid below shows the elements of organizational capacity building. Organizational development exercises in Bhutan are initiated by the RCSC with the main objectives to: review the mandates and capacities of agencies; b) align organizational goals with the national objectives; c) improve efficiency and effectiveness of civil service; and d) right size the civil service.

The main focus of capacity development in MoF is on training individual officers. According to MoF-HRD, there are 1,658 employees of MoF engaged in PFM across RGoB, divided over the DPA, DNB, DRC, DNP, DMEA and the Secretariat.[33]

Pyramid of effective capacity building



There are two types of training: training for specific reforms, and training in particular disciplines. Every reform activity requires training or re-training of the affected personnel, such as training users of the planned IFMIS or the users of the CSIS and the PEMS payroll module. Training associated with particular reforms is normally designed as part of the project that implements the reform. As it is one-off, it is not certificated and is not normally part of the requirements for promotion.

Training in particular disciplines such as accountancy, procurement, IT or internal audit is

[33] Draft Project Document 2016-2020 Institutional Strengthening of the PFM Reforms. This excludes 358 employees who are not regular staff recruited through the RCSC, who are mainly non-PFM.

equally important. This training is standardized: successful candidates are awarded certificates, diplomas, master's degrees, professional qualifications. Both types of training are included in the Action Plan.

Qualifications should be linked to the progression of staff within the government. This provides an incentive for staff to get trained. For accountants, training could be provided in Bhutan for the ACCA, CIPFA or CPA-Australia qualifications by arrangement with the accrediting institutes and national service providers such as Gaeddu College of Business Studies and the Royal Institute of Management.[34] An arrangement has already been made with the Chartered Institute of Procurement and Supply (UK) for procurement training and certification in Bhutan.

Training policy and procedures are set out in chapter 9 of Bhutan Civil Service Rules and Regulations (BCSR, 2012). Agencies determine their own training needs and formulate and implement them. Long-term training (over six months) has to be approved by RCSC. Currently, decisions on meeting short-term training needs are decentralized to agencies. The training courses must be "relevant" to candidates, and there are clear criteria of selection of candidates. The training needs have to be properly based on agency strategic plans and individual job descriptions and career progression plans.

The rules and regulations do not mention training needs assessment (TNA). It would be preferable for TNA to be a pre-requisite for training proposals so as to ensure that training is more relevant to agency needs, rather than a "pork barrel" to be shared around the staff. This assessment should be independent of the departments even for short-term training, which accounts for the greater part of the training budget.[35] The appropriate body to make TNAs for various departments in the MoF is the HRD, MoF. Provision should be made for the creation of a TNA capability within HRD, MoF. The estimated cost is US$ 0.05 million or Nu. 3.4 million.

TNAs would be assisted by a Competency Framework for all functions of departments in the MoF. HRD, MoF along with the Focal Persons of various departments of the MoF attempted this in the past but the exercise is work-in-progress and yet to be completed. HRD, MoF might prepare a Competency Framework for all finance-related functions of RGoB to ensure consistency and comprehensiveness in PFM training. Further, RGoB recognizes the need to bring contemporary skill sets on board - for instance personnel trained in international standards such as IPSAS and IPPF (of IIA) to cater to the global changes in PFM. It is proposed to incorporate these requirements in the competency frameworks to be developed.

[34] These professional institutes are assisting other countries in SAARC. CIPFA, for instance, is partnering the Institute of Chartered Accountants of Sri Lanka to develop a joint qualification, membership arrangements, and training of trainers in public sector accounting standards. CIPFA is also working with the Office of the Auditor General in Bangladesh. ACCA has short courses for Certified Accounting Technicians (CAT) developed with the Institute of Chartered Accountants of India.

[35] In the MoF HRD capacity building proposal, 59% of the total Nu 150 million was for short-term training and 41% for long-term training.

Local and regional training providers should be preferred wherever possible. While courses in developed countries may be of high value, they are also high cost, and often of less relevance to low-income countries.

Retention of staff. The professional training given to government officials prepares them to compete in the open market and at times leads to problems of separation of staff and loss of the training investment. Thus, professional training has to be accompanied by adequate staff retention policies. The RCSC Director says that RGoB civil servants 'leaving for greener pastures' are negligible. Separations of the civil servants were only 2% of total strength (541 out of 26,928) during FY 2015/16 (RCSC annual report). The BCSR require civil servants to serve a year in the government for every year of long-term training. They must also be guaranteed by an acceptable guarantor, and there are financial penalties for officials quitting the government immediately after completion of a course.

Need for special skills in external and internal audit. The RAA and CCA both highlighted the need for officials with different backgrounds beyond financial expertise to be part of the audit teams. This will help shift the focus from compliance and financial audits to quality performance audits. There are arrangements for secondment and officers-on-special-duty to meet such needs. These arrangements could be facilitated by maintaining a roster of specialists who could be called upon as and when required. This would require (i) detailed work plan preparation by the agencies (RAA and CCA) with clear articulation of their requirements and time commitment; and (ii) effective coordination between RCSC and the agencies allowing enough time for RCSC to mobilize the right talent.

Capacity building is included in the cost of each reform area, except for the cost of creating a training needs assessment and evaluation function in RCSC.

5.8.3 Gender-responsive budgeting

Bhutan's Constitution treats men and women equally, but there is a significant disparity between women and men in health, education, and participation in the economy and politics in the country. Bhutan ranks only 121st among 144 countries in the Global Gender Gap Index 2016 released recently by the World Economic Forum, and the gap is getting wider: in 2013, Bhutan ranked 93rd among 136 countries. Female literacy is 55%, above the regional average, but male literacy is 17 percentage points higher. There are only six female MPs out of 72. One in three women of age 15-49 has experienced domestic violence.

The RGoB has promised to accelerate implementation of the Beijing Platform for Action and the 2030 Agenda gender equality goal where the country is required to achieve a ratio of 50:50 between men and women by 2030. Following the adoption of the Beijing Platform of Action in 1995, a number of countries adopted gender-responsive budgeting (GRB) as a key strategy to advance women's rights. More than 90 countries have engaged in gender-responsive budgeting worldwide, of which more than a quarter are found in the Asia Pacific region.

The RGoB has recently endorsed a gender-based budget planning strategy. A study was made by MoF-DNB and UN Women with support from the Asian Development Bank on Gender-Responsive Planning and Budgeting (GRPB) with analysis of three sectors: agriculture, health and education. The report was launched on 11 May 2016.[36] MoF, the National Commission for Women and Children, GNHC and the sectoral departments are working together to strengthen the implementation of GRPB.[37] This is being funded by UN Women. JICA has assisted with a gender profile study.

The APA for MoF in 2016/17 includes two success indicators: provision of a childcare centre in MoF, and development of an international framework to address gender issues.

6. FINANCING THE PFM REFORM STRATEGY

Financing of the PFM reform program is expected to come from the MDF, World Bank Development Policy Credits, EU, ADA, JICA, UN Women and other development partners, as well as from RGoB. Every effort should be made to enlarge the membership of the MDF, as the return on investment in better PFM is likely to be high, and the risks with a committed government leadership are low.

A possible additional source is the Program for Results (P4R), a window recently launched by the World Bank. P4R links disbursements to results achieved. This may be a valuable supplement for funding expensive components such as IFMIS and GST programs. IFMIS has not yet been programmed. GST has been programmed by DRC by component (see section 4.1 above). It can be seen that the two activities of establishing a legal framework and reviewing business processes are estimated to cost $1.13 million, which might fit within the initial MDF envelope, while heavy spending starts with the IT component.

Nominal or virtual earmarking The MDF could be made more attractive to donor agencies that are interested in supporting particular components of the reform program, but do not want their contributions to disappear from view. The TOR of the MDF disallow earmarking of contributions to particular areas of reform: all donor disbursements go into a single bank account and are spent according to a jointly agreed work plan. If a potential donor is interested in only one area, say procurement, it may provide parallel financing. The disadvantages of this are the loss of jointly agreed resource allocation and higher transaction costs. Parallel financing may be reduced by allowing “nominal earmarking”. The donor interested in (say) procurement would be encouraged to join the MDF, disburse into the common pool and receive the same

[36] MoF (2016) Gender Responsive Planning and Budgeting in Bhutan (GRPB): From Analysis to Action, reported in Kuensel 12 May 2016. See also Kuensel 16 December 2016, and Sherubtse Initiative for Gender Learning and Research “Understanding Gender in Bhutan: Issues and Challenges”, report of a workshop held 27-28 October 2016.

[37] This is referred to in the 2015/16 Budget Report, section 3.5.15. In that year, Nu.214 million was allocated to agencies that will contribute towards promoting gender equality.

reports as other members. If the expenditure on procurement exceeds the donor's contribution, it has effectively been routed into procurement. This should meet the needs of the donor agency and its constituency.

7. STRATEGY MANAGEMENT AND IMPLEMENTATION

The PFM-GG shall be the apex body leading the PFM reform programs through a PFM Reform Strategy and an Action Plan adopted and updated on a periodic basis. PFM-GG shall also decide on the application of funds mobilized for the PFM reform programs through Multi-Donor Fund (MDF).

The PFM reform programs shall be coordinated by the Department of Public Accounts as PFM-GG Secretariat while actual implementation of specific reforms shall be carried out by various Implementing Agencies (IAs).

8. RISKS AND MITIGATION MEASURES

This Strategy covers multiple reform elements and several factors could affect the outcomes and achievement of the objectives. The implementation of the Strategy may face certain risks that may affect its smooth implementation. The key risks identified at this stage are outlined below.

a) Sustaining the political will and commitment to adopt and implement the Strategy
b) Limited resources may compete with the several activities proposed in the Strategy
c) Frequent changes in the institutional structure may affect coordination and decision-making
d) Capacity to coordinate and implement the Strategy in terms of staff skills and retention, infrastructure and financial resources
e) Resistance to change by those affected due to changes in legacy processes and in management culture

The PFM-GG would be the nodal institution for monitoring these risks and provide guidance on mitigation measures. It should set-up a monitoring mechanism with feedback from participating ministries/departments. And it should develop a PFM Monitoring Indicators Framework.

Annex – 1: Overall summary of PFM performance scores (2016 Framework)

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

Annex – 2: Summary of Weaknesses in Fiscal Information Systems (per Deloitte report 2014)

PlaMS

- Budget agencies do not enter details of capital programs in PlaMS as they already have done this on MYRB as part of their budget proposal. This is a primary source of inconsistency at the sub-activity level. Mapping of sub-activities in MYRB to PlaMS is not done. GNHC has to depend on the MYRB for expenditure data on capital projects.
- PlaMS cannot check whether two programs have overlapping activities, which is particularly necessary where programs are supported by different donors.

MYRB/PEMS

- There is no software design document or system requirement specification. Since these systems went live in 2009, there have been a number of functional changes, but these have not been entered into a change log. These systems are now "*black box*": knowledge of the systems remains with the original developer and there is limited in-house capacity to make any system changes.
- Each system is on a stand-alone server. Dispersed infrastructure raises the cost of operation and maintenance.
- The systems lack adequate security.
- There are multiple data entry points for the same data, causing inconsistencies.
- MYRB does not capture outputs and other performance parameters.
- Sector allocations are simply the sum of their program allocations, based on agency proposals.
- There is no facility to estimate recurrent expenditures based on previous expenditure, projected levels of demand/output, inflation, etc. or support to DNB decision-making by identifying outlier proposals, or support to budget agencies by automatic projections for each line item.
- At peak periods, such as end-of-year account closure, PEMS is overloaded. There is a backlog of issue of letters of credit to the bank, and agencies issue cheques before entering vouchers in the system, resulting in loss of control and some unauthorized expenditure.
- Agencies draw capital releases and deposit them in current deposit accounts, which are outside the TSA. Unused funds on 300 CD accounts averaged Nu 700m in the 5 years to 2012/13. This adds to the level of debt on which RGoB pays interest.
- There is no system of monitoring LC overdrafts, except through the bank scroll to the Treasury (a manual process).
- In times of cash shortage, the Treasury delays issue of letters of credit, contrary to FRR.
- The chart of accounts for expenditure does not align with IMF-GFS. Nor does it cover assets. Sub-activity codes can be added or edited by agencies without central control.

- The asset inventory is maintained manually. Agencies do not share their asset data with DNP, except after audit recommendations.
- The cash basis of accounting is sub-optimal
- When an agency sub-allots part of its budget to another agency, it is counted as expenditure of the transferor and revenue of the transferee. Aggregate expenditure and revenue are double counted. These transactions are cancelled out only in the final accounts.
- PEMS and MYRB allow for transfer of personnel but follow different processes, resulting in data inconsistencies.
- Payroll on capital projects is not allocated to object heads, so capital expenditure is understated.
- There is no data exchange with the bank: bank scrolls are received daily and have to be reconciled manually with the payments records. Only RAMIS has a data link to the bank.
- Outputs are structured according to statutory reporting requirements. It is difficult to change their format or to generate ad hoc customized reports. Analysis is manual.

CS-DRMS

- CS-DRMS is used to maintain portfolios and prepare repayment schedules, but portfolio analysis, scenario analysis and forecasting are done manually.
- Grant management is split between DMD (ADB and WB grants) and GNHC Development Cooperation Division (all other grants)

Annex – 3: Core PFM Functions

Description of Core PFM Functions	PEFA Indicator/ Description	Target Score	Current Bhutan Score based on 2005 Framework	If Bhutan score < Target Score, identify gap	Corresponding Indicator in 2016 Framework	Current Bhutan Score based on 2016 Framework	PFM Reform Strategy reference
Realistic budgeting -OUTCOME: Budget outturn is close to budget approved ex ante							
• Revenue forecasts are realistic, based on detailed analysis of revenue bases and macroeconomic developments -	PI-5: Classification of budget	C	A	--	PI-4	A	4.1
	PI-11:Orderliness & participation in the annual budget process	B	B+	--	PI-17	B	4.1, 4.2, 4.3
• Expenditures are fully costed, with adequate allowance for inflation, exchange rate movements, recurrent costs of completed investments	PI-12: Multi-year perspective	C	B+	--	PI-16	C+	4.1, 4.2, 4.3
In-year control over spending – OUTCOME: Budget outturn avoids overruns and arrears							
	PI-2-(ii): The average amount	B	-	-	PI-2.3	A	-

• Commitments are controlled as well as cash • Budget is comprehensive, and makes adequate provision for contingencies	of expenditure actually charged to the contingency vote over the last three years.						
	PI-4-(ii) Availability of data for monitoring the stock of expenditure payment arrears.	B	D	Centralized data lacking	PI-22.2	D	2.1
	PI-18 : Effectiveness of payroll controls	C+	D+	Personnel and payroll systems not integrated	PI-23	D+	2.3
	PI-6: Comprehensiveness of information included in budget documentation	A	A	-	PI-5	A	2.1
	PI-7 : Extent of unreported government operations	B	B+	-	PI-6	C+	3.1
In-year control over revenues - OUTCOME Budget revenue outturn avoids shortfalls and arrears							
	PI-13: Transparency of taxpayer	C+	B+	-	PI-19	B+	1.1, 1.2, 1.5

• Tax administration has capacity to enforce tax laws – • Continual analysis and follow-up of revenue collections versus estimates	obligations and liabilities						
	PI-14: Effectiveness of measures for taxpayer registration and tax assessment	C+	B	-			1.1, 1.2, 1.3, 1.4, 1.5
	PI-15: Effectiveness in collection of tax payments	C+	B+	-	PI-20	B+	1.1, 1.3, 1.4
	PI-16: Predictability in the availability of funds for commitment of expenditures	C+	B+	-	PI-21	B+	2.1, 4.2, 6.1
Timely accounting and reporting – OUTCOME Budget execution performance is known throughout the year allowing adjustment if required							
• Accounting is comprehensive and timely • Reliable and timely bank reconciliation in place – • Reports can be produced with minimal delay so	PI-22: Timeliness and regularity of accounts reconciliation	B	B	--	PI-27	B	2.1
	PI-24: Quality and timeliness of in-year budget reports	C+	C+	-	PI-28	C+	2.1, 2.4, 4.2
	PI-25: Quality and timeliness of annual financial statements	C+	C+	-	PI-29	C+	3.1, 3.2

budget execution can be tracked and public sector monitored	PI-23(i): Availability of information on resources received by service delivery units	D	C	-	PI-8.3	C	2.1
	PI-9(i): Extent of central government monitoring of AGAs and PEs.	B	B	-	PI-10.1	A	3.1, 3.2
Central control over cash – OUTCOME: Budget minimizes use of cash and risk of financial irregularity							
• Use of a Treasury Single Account (or consolidated fund concept) – • Minimize number of bank accounts and cash transactions	PI-17: Recording and management of cash balances, debt and guarantee	B	A	-	PI-21	B+	2.1, 5
Adequate internal control procedures – OUTCOME: Budget execution avoids rent seeking behaviour and financial irregularities							
• Administrative internal controls in place in all government departments –	PI-19: Competition, value for money and controls in procurement	C+	B	-	PI-24	B	6.1 – 6.5
	PI-20: Effectiveness of internal controls	C+	A	-	PI-25	A	7

• Procurement is transparent with well-defined regulations – • Internal audit functions adequately	for non-salary expenditure						
	PI-21: Effectiveness of internal audit	C	C+	-	PI-26	C+	7
Adequate external control procedures – OUTCOME: Transparency and financial discipline enforced							
• External audit addresses financial irregularities with timely reports to the legislature – • Strong legislative scrutiny and follow-up on audit reports	PI-26: Scope, nature and follow-up of external audit	C+	B+	-	PI-30	B+	8
	PI-27: Legislative scrutiny of the annual budget law	B	D+	Limited scope and procedures of FC (at time of assessment)	PI-18	C+	9
	PI-28: Legislative scrutiny of external audit reports	C+	C+	-	PI-31	B+	9
	PI-10: Public access to key fiscal information	B	A	-	PI-9	D	2.1, 3.1, 3.2
Supporting legal and regulatory framework, that is adequately enforced : OUTCOME: The formal PFM system is the system							

Annex-4: PFM Reform Action Plan 2017-2021

Sl. No.	Reform Area	Related PEFA Indicator/s	Timeline	Implementing Agency (lead)	Activity/s	Output	Outcome	Approx. Cost (USD million)	Approx. Cost (Nu. million)
1	**Revenue administration**	PI-3, 19 and 20		DRC	See below	See below	Higher domestic revenue/GDP %		
1.1			Medium term		Implementation of GST 1.1.1 Legal framework 1.1.2 Business processes 1.1.3 Automation 1.1.4 Taxpayer outreach 1.1.5 Capacity building & change management 1.1.6 Project implementation	Functioning GST system	Collection of planned GST revenue	7.780	392.635
1.2			Short term		Implementation of post-clearance audit system	Increase in customs collections	Collection of planned customs duty	0.200	13.586

1.3			Short term		Establishment of Revenue Intelligence Division	Full-fledged division set up with capacity fairly developed	Collection of increased revenue	0.200	13.586
1.4			Short term		Continued development of RAMIS	All modules fully functional, with system capacity for multi-users	Smooth transaction posting and timely issue of revenue reports and analysis	0.300	20.379
1.5			Short term		Review of policy on tax holidays & exemptions	Approval of new policy	Reduction in foregone revenue	0.020	1.359
1.6			Medium term		Skills development	DRC officers with capacity in transfer pricing, double taxation agreements, audit of multinational organizations, cross-border leakages, base erosion, negotiaion of tax and trade treaties	Increased revenue	0.387	26.289

1.7			Medium term		Professionalization of DRC officers	Certificated officers	Increased revenue	0.350	23.776
2	**Information systems**	All	Jun-21	See below	See below	See below			
2.1			Long term	Government committee	Design and implementation of IFMIS	Fully functioning IFMIS	Timely and reliable data on RGoB fiscal operations and performance	20.000	1358.600
2.2			Short term	DPA	Introduction of e-payments	Functioning e-payments system for all RGoB payments	Greater efficiency and reliability of payments system	0.500	33.965
2.3			Medium term	DPA	Linkage of CSIS to PEMS payroll	Functional linkage	Greater reliability of payroll records	0.500	33.965
2.4			Short term	DNB	Adaptation of MYRB for easier production of user-defined reports/training in use of Crystal	MYRB that DNG officers can get reports themselves	Efficiency gains	0.044	2.989
2.5			Medium term	DNP	Development and rollout of web-based inventory system linked with PEMS	Functioning Inventory System	Effective asset management	0.500	33.965

3	**Financial reporting**								
3.1		PI-29	Short term	DPA	Compliance of AFS 2018/19 with cash-based IPSAS	AFS meeting all cash-IPSAS requirements	More comprehensive and internationally comparable AFS	0.050	3.397
3.2			Medium term	AASBB	Adoption of IPSAS accounting standards for the public sector	Agreement with DPA and RAA , and issue of public sector standards		0.050	3.397
3.3			Medium term	ICAB	Establishment of ICAB	Strong institution, with capacity to regulate the accounting profession in Bhutan		0.300	20.379
3.4			Medium term	DPA	Training for professional and technician qualifications	Certificated and professionally qualified officers		0.480	32.606
4	**Budget management**	PI-5, 16, 17, 18	Medium term	DNB	See below	See below	See below		

4.1			Short term	DNB	Introduction of "higher level" budgeting for presentation to National Assembly	More streamlined production and execution of the Budget	Efficiency gains	0.010	0.679
4.2			Medium term	DNB	Building capacity for RBB in DNB	Trained budget officers	Better allocation of resources by linking inputs to outputs and comparing options	0.050	3.397
4.3			Medium term	DNB	Development of gender-responsive budgeting	Trained officers	More women participating in development	0.050	3.397
4.4			Medium term	DNB	Training for professional qualifications	Certificated and professionally qualified officers	Higher quality budget analysis	0.200	13.586
5	**Debt management**								
5.1		PI-13	Medium term	DMD	Skills building	DMD able to use CS-DRMS management tools, and to undertake DSA	Independent control of debt strategy	0.040	2.717
5.2		PI-13	Medium term	DMEA	Development of capital market	Reduced use of Treasury Bills,	Higher quality debt management	0.100	6.793

						lower interest cost			
6	**Procurement and asset management**	PI-24, also PI-11 Public investment management, PI-12 Asset management, PI-17 Budget preparation, PI-21 Cash flow management, PI-22 Expenditure arrears, PI-25 Internal controls on non-salary expenditure	Medium term	GPPMD	See below	See below	Fiscal savings through wider knowledge of bid opportunities, greater competition and lower cost, higher quality of works through inclusion of technical capacity of bidders in the evaluation, reduced administration cost through automation of process from requisition to payment		
6.1			Medium term	GPPMD	Electronic government procurement system (eGP)	6.1.1 Pilot implementation 6.1.2 Progressive	Improved procurement environment though enhanced	0.700	47.551

					launched in all RGoB agencies	rollout to all agencies	regulatory framework, (ii) Greater efficiency, economy and value for money though wider knowledge of bid opportunities, greater competition and better procurement capacity of the stakeholders.		
6.2			Medium term	GPPMD	6.2.1 Public Procurement Act finalised, 6.2.2 Policy document finalised, 6.2.3 regulations and SBDs updated, 6.2.4 GPPMD and CDB training on eGP,	Procurement Act passed, Policy document approved, Regulations and SBDs approved, GPPMD and CDB officers trained on eGP, All procurement	Higher quality of procurement	0.600	40.758

					6.2.5 Procurement officer training on eGP	officers trained on eGP			
6.3			Short term	GPPMD	6.3 Introduction of framework contracts 6.3.1 Draft SBD for FAs 6.3.2 Train GPPMD officers in FA 6.3.3 Awareness training for users and bidders	SBD for FAs approved, GPPMD officers trained in FA, Users and bidders aware of FA	Framework agreement (FA) modality designed and in use for common user goods	0.200	13.586
6.4			Medium term	GPPMD	6.4.1 Design professional and certificate courses in procurement, 6.4.2 Localize WB Procurement Certificate course, 6.4.3 Implement training courses, 6.4.4 CIPS training of selected officers,	6.4.1 Professional and certificate courses designed, 6.4.2 Bhutan Procurement Certificate course designed, 6.4.3 Officers trained,	Enhanced capacity of procurement cadre	0.330	22.417

					6.4.5 Revise job descriptions of affected grades	6.4.4 Officers gain CIPS qualification, 6.4.5 Job descriptions of affected grades approved			
6.5			Short term	GPPMD	6.5.1 Revise points-based system, 6.5.2 Introduce public access to eGP evaluation results		Improved procurement through open contracting	0.120	8.152
6.6			Medium term	DNP	Professional training in non-financial asset management of DNP officers	Trained officers	Improved non-financial asset management	0.100	6.793
7	**Internal audit**								
7.1		PI-26	Medium term	CCA	Skills capacity building	Trained internal auditors	Improved implementation of APAs	0.300	20.379

7.2		PI-26	Medium term	CCA	Establishment of quality assurance function and unit within CCA	QA manual drafted and training given, higher % of recommendations addressed	Higher quality audit reports, greater use by RAA	0.100	6.793
7.3		PI-26	Medium term	CCA	Professional training of IA officers	Number of CGAP and other qualifications achieved	Improved internal audit, higher management engagement	0.100	6.793
8	**External audit**								
8.1		PI-30	Medium term	RAA	Training of Expert Trainers and Subject Matter Experts on implementation of ISSAis	Trained ETs and SMEs	Professionalization of RAA audit	0.300	20.379
8.2			Medium term	RAA	Training selected middle-senior level RAA officers with US-GAO International Auditing Fellowship Program	10 graduates (2/year)	To develop strategy papers and implement upon return, build professional auditing and management capacity	0.195	13.246

9	**Parliamentary Committees**								
9.1		PI-31	Short term	National Assembly	Capacity building of members of FC and PAC, and secretariat incl. research officers	Trained parliamentarians and secretariat staff	Enhanced legislative review of RGoB operations	0.100	6.793
10	**Capacity building**								
10.1		All	Short to medium term	HRD, MoF	Create training needs assessment and evaluation function	Competency framework, and TNAs performed as required	Higher return on training investment	0.050	3.397
10.2			Short-term to medium-term	HRD, MoF	Strategic HR management, Institutional linkages, Supervisory and Leadership management program, HR Integrity coaching and mentoring, HRISOF user training, awareness workshop on Code	Trained MoF employees and strengthened their capacity to improve PFM reforms and achieve APA targets.	Enhanced capacity and competencies to further improve the delivery of services in the MoF and achieve APA targets.	0.450	30.569

					of Conducts and Ethics, HR Metrics and Analytical skills, study visit for strategic workforce management for Executive and Supervisors.				
	TOTAL							**33.756**	**2293.045**

Annex – 5: IFMIS Implementation Roadmap proposed in the Deloitte Report

The project should begin with establishment of Project Management Unit (PMU) in Ministry of Finance. It should be formed with representation from all key stakeholder ministries/ agencies. This would enable that the finalised concept is as per the requirements of all ministries/ agencies. This would also enable effective change management. The PMU should be supported by a techno-functional consultant, which would support PMU in the mandatory PFM methodology improvements and in preparing the contours of the GIFMIS. The techno-functional consultant shall also support the PMU in vendor selection, project management, development monitoring, testing, oversight and implementation of GIFMIS. The broad responsibility of the techno-functional consultant should include the following:

1. Detailed as-is process study and preparation of to-be processes;
2. Supporting the PMU in finalization of improvements in core methodologies;
3. Designing the improvements to core methodologies;
4. Implementation of core strategies for implementation of GIFMIS;
5. Supporting PMU in change management and
6. Supporting PMU in selection, monitoring and evaluation of development partner

The GIFMIS project should be executed in a phased manner. Three distinct phases of the program execution are (i) Pre implementation phase; (ii) Implementation phase; and (iii) Post implementation phase