

FINANCIAL MANAGEMENT ASSESSMENT

A. Executive Summary

1. A financial management assessment (FMA) was conducted in February 2018 in accordance with Asian Development Bank's (ADB) Financial Management Assessment Technical Guidance Note, 2015 and ADB's Financial Due Diligence: A Methodology Note and updated in January 2017.¹ The FMA was conducted for the Ministry of Labor and Human Resources (MOLHR) (Appendix 1) and Ministry of Education (MOE) (Appendix 2) which are the executing agencies. The FMA analyzes fund flows, internal controls, internal and external audit arrangements, and information systems. The assessment mainly draws information from secondary and primary research which includes lessons learned from the implementation of the ADB grants and loans, reviews of financial documents, interviewing government counterparts and discussing issues with stakeholders. Several meetings with the staff from finance, accounts and internal auditor unit were conducted from both Ministries. Further, meetings with Department of Macroeconomic Affairs (DMEA), Ministry of Finance (MOF) (Appendix 3) and Royal Audit Authority (RAA) were organized. FMA questionnaires take into account the responses by staff from MOLHR and MOE as well as recent ADB country and sector-level experience. The FMA questionnaires are available on request.

2. MOLHR, MOE and MOF are guided by the Financial Rules and Regulations (FRR) 2016 of the government, which are assessed as robust in light of international practices and standards. It is concluded that the overall pre-mitigation financial management risk of MOLHR and MOE is Substantial. Despite the existence of strong systems, project financial management risks are rated substantial primarily due to lack of adequate capacity for financial management and monitoring, inadequate internal controls on compliance with procedures, weak control over fixed assets and timely follow up on internal and external audits. Mitigation measures proposed include the appointment of full time financial management personnel in the PMUs, supported by financial management consultants and agreements on strengthening financial monitoring processes and improving asset management controls. Internal Audit of the respective ministries will present half-yearly internal audit reports to the steering committee. The role of internal audit is to provide independent assurance that risk management, governance and internal control processes in financial management and procurement areas in the respective ministries are operating effectively. An annual statutory external audit report will be submitted within six months of the end of the financial year together with action taken report on audit observations. The grant recipient and executing agencies have agreed to implement an action plan as key measures to address the deficiencies and undertake mitigation measures. The financial management action plan is provided in Table 1 below.

3. Based on the assessment, the key financial management risks identified are: (i) Entity-Specific Risks; (ii) Project-specific Risk and (iii) weak internal controls risk. The financial management action plan is presented below:

Table 1: Financial Management Action Plan

| Key Risk | Risk Rating | Risk Mitigating Activity | Timeline | Responsible Entity |
|-------------------------------------|-------------|--|----------------------|--------------------|
| 1. Entity-Specific Risks: Financial | S | PMUs are being set up for implementing the project at both Ministries along with clear | By loan negotiations | MOLHR MOE |

¹ ADB. 2015. *Financial Management Assessment Technical Guidance Note*. Manila; ADB. 2009. *Financial Due Diligence: A Methodology Note*. Manila

| Key Risk | Risk Rating | Risk Mitigating Activity | Timeline | Responsible Entity |
|---|-------------|--|---|--------------------|
| and Operational Risk – lack of adequate financial management capacity for timely project implementation and weak internal controls | | organizational structure and specific terms of reference for PMU staff and experts (Appendix 4). Dedicated and full time financial management staff will be assigned to the two PMUs in MOLHR and MOE which will be further supported by external financial management consultants for timely financial reporting. | | |
| 2. Project-Specific Risks: Project Completion Risk - -Assigned PMU staff would not have sufficient understanding of ADB's financial management requirements, disbursement procedures to manage the project fund flows which may contribute to delays in project implementation | S | Finance officials and project managers in the PMU in MOLHR and MOE will receive financial management training from ADB covering online disbursement, financial reporting and audit requirements. | May 2018 (training on online disbursement procedures) | MOLHR MOE |
| 3. Contract compliance procedures and internal controls are inadequate. | S | The PMU will develop procedures to administer, monitor, and control contracts. The PMU will be supported by Project Engineer, Project Procurement officer, Project Accountant and Design and Supervising consultants to ensure that civil works contractors comply with contractual terms and specifications. Internal Audit should conduct an audit during the early phase of project implementation for efficacy of contract compliance. | Before disbursement | MOLHR MOE |
| 4. Weak control over fixed assets may result in loss of project assets leading to risks for project completion and operation. | M | A fixed asset register for project assets will be maintained by the PMU, including assets provided during project preparatory technical assistance. There will be periodic physical verification plan along with provision for periodic counts including reconciliations of all equipment provided to the PMUs as well as to all the TTIs. A detailed inventory of all physical assets will be maintained at respective levels. The fiduciary reviews at mid-term and final evaluation will take stock of the physical location and usage of the assets. Department of National Properties has introduced a web-based Assets Inventory Management System and Fixed Asset Registers. MOLHR and MOE will use the web-based AIMS and will maintain record appropriately. Regular monitoring will be | Before contract award and ongoing during project implementation | MOLHR MOE |

| Key Risk | Risk Rating | Risk Mitigating Activity | Timeline | Responsible Entity |
|--|-------------|---|---------------------------------------|--------------------|
| | | undertaken by the PMU and further corroborated with external agencies. | | |
| 5. Weak internal controls and inadequate follow up on internal and external audits | M | Internal Audit of the respective ministries will present half-yearly internal audit reports to the steering committee. The role of internal audit is to provide independent assurance that risk management, governance and internal control processes in financial management and procurement areas in the respective ministries are operating effectively. An annual statutory external audit report will be submitted within six months of the end of the financial year together with action taken report on audit observations. | Ongoing during project implementation | MOLHR MOE |

H = High, S = Substantial, M = Moderate, N = Negligible or Low.

ADB = Asian Development Bank, MOLHR = Ministry of Labor and Human Resources, MOE = Ministry of Education, PMU = project management unit, SPBD = School Planning and Building Division, TTI = technical training institute.
Source: ADB.

4. The overall financial management risk can come down from Substantial to Moderate after mitigation measures have been taken

B. Country-level Assessment

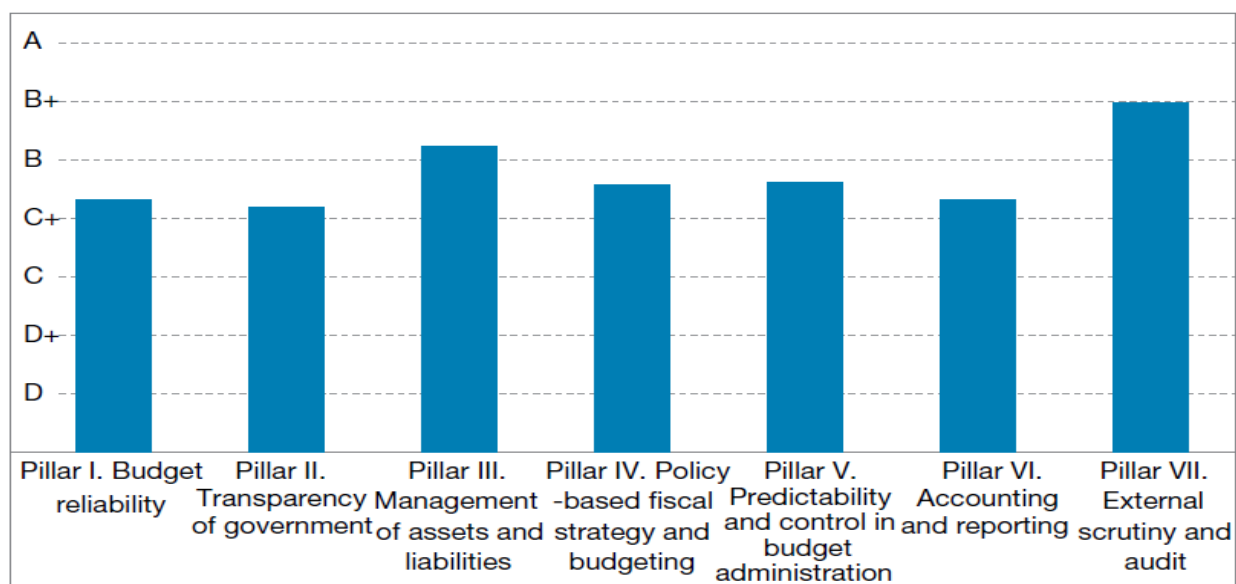
5. ADB's Country Partnership Strategy (CPS), 2014–2018 indicated Bhutan's Public Financial Management (PFM) system is more robust than many comparable countries.² Nonetheless, there is room for improvements in the management of public finances and monetary operations. The key risks identified were (i) lack of skills in PFM, in general and at local level;(ii) Limited internal control and internal audit capability; (iii) Fiscal risks of state-owned enterprises (SOE) not well monitored (iv) Bid-and-review system of medium-term fiscal framework and (v) Inability to fund regular operations and maintenance.

6. The 2016 Public Expenditure and Financial Accountability (PEFA) assessment is the latest review of the public financial management system, which was jointly undertaken by government, the World Bank, and the International Monetary Fund (IMF).³ The aggregate scores against each of the seven pillars of PEFA Framework are shown in Figure 1.

² ADB. 2014. *Risk Assessment and Risk Management Plan (Summary)*. Manila

³ PEFA. 2016. *Bhutan-Public Financial Management Performance Report*. Washington DC.
<https://pefa.org/assessments/bhutan-2016>

Figure 1: PEFA Scores against Seven Pillars



Note: A (excellent), B (good), C (opportunities for some improvement) and D (in need of substantial improvement in some areas and/or information not available for the assessment).

Source: PEFA. 2016. *Bhutan-Public Financial Management Performance Report*. Washington DC.

7. The aggregate scores against each of the seven pillars of PEFA Framework indicates that two pillars are relatively stronger i.e. Pillar III: Management of assets and liabilities and Pillar VII: External scrutiny and audit. The pillars showing relatively lower scores are: Pillar II: Transparency of government, and Pillar VI: Accounting and reporting. As part of the governance agenda, strengthening PFM systems is an area of high priority for the Government. Given that the Government is the major controller of public resources, Government over the years has been making progress in PFM covering budget preparation, budget execution, control, reporting and oversight. There is increased legislative oversight on budget approval through a finance committee and of audit reports through a public accounts committee. Government is pursuing a PFM Reform Action program based on PEFA findings of 2016. The following key reforms are being pursued: (i) the integration of Planning and Monitoring System (PlaMS), Public Expenditure Management System (PEMS) and Multi Year Rolling Budget (MYRB); (ii) further development of the Government Performance Management System; (iii) web-based inventory system under development; (iv) implementation of a web-based Revenue Administration Management Information System (RAMIS) and instituting a separate intelligence and investigation unit to strengthen revenue collection; (v) dialogue has started on the integration of the Civil Services Information System with the payroll system in PEMS ; and (vi) a central procurement management system (e-GP) is being developed.

8. 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, and to support efficient public service. Externally validated assessments of PFM in 2010 and 2016, using the PEFA methodology, show the achievements over this period. Some of the assessments of changes in PFM performance since 2010 shows: (i) aggregate expenditure and domestic revenue out-turn remain strong and are further strengthened by implementation of the web-based MYRB and RAMIS; (ii) introduction of a formula-based system for fiscal transfers to local government; (iii) a formal cash flow forecasting system; (iv) improved effectiveness of internal audit; (v) introduction of a formal system of in-year budget execution reporting; (vi)

constitution of a Finance Committee for legislative scrutiny of budget; and (vii) a more active Public Accounts Committee for scrutiny of audit reports.

9. However, there are weaknesses and risks in the PFM systems. The PFM Reform Strategy 2017–2021 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.⁴ Government is pursuing a PFM Reform Action program based on PEFA findings of 2016. The following key reforms are being pursued (i) the integration of PlaMS, PEMS and MYRB; (ii) further development of the Government Performance Management System; (iii) web-based inventory system under development; (iv) implementation of a web-based RAMIS and instituting a separate intelligence and investigation unit to strengthen revenue collection; (v) dialogue has started on the integration of the Civil Services Information System with the payroll system in PEMS ; and (vi) a central procurement management system (e-GP) is being developed.

10. **Budget Management.** 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. The Department of National Budget (DNB), MOF has introduced the Multi-Year Rolling Budget System (MYRB) since FY2010/2011 and Department of Public Accounts (DPA), MOF has introduced Public Expenditure Management System (PEMS). All budgeting, releases and expenditure tracking is done online using these two systems. Both the systems are integrated giving a common report and the systems are accessed from anywhere. Whereas in the past, BAS (Budget and Accounting System) was standalone system. Financial reports generated from PEMS and MYRB are accurate and reliable, and is used for reconciliation and auditing. No excess expenditure can be incurred without sufficient budget balance unlike in the past. The system was further enhanced and now data sharing with the bank is also done on monthly basis for reconciliation.

11. **Five-Year Plans and Elections.** Bhutan prepares Five Year plans which are a series of national economic development plans. The Twelfth Five-Year Plan will be for the period 2018–2023. It is a busy election year in Bhutan with the National Council elections were held on April 20 which will be followed by the third National Assembly elections towards the end of the year. It is expected that the new elected government will approve the Twelfth Five-Year Plan by the end of the year. The current ruling government is preparing the budget in February and is expected to pass the budget for the financial year 2018–2019 (1 July 2018–30 June 2019) which is the first year of the Twelfth Five-Year Plan. Based on discussions with government counterparts, it will not impact current budget. However, only budget for ongoing capital works, upon verification with Gross National Happiness Commission (GNHC) and MOF, will be submitted to the Parliament in April 2018. In December 2018, when the government is formed, it is expected capital budget and plan alignment will be done.

12. **Accounting Policies and Procedures.** All ministries follow the accounting policies and procedures of the government and are required to use online budgeting accounting system software called MYRB and PEMS for cash-based double-entry accounting system. All government Letter of Credit accounts (LC), Limited Liability Companies (LLCs) and Project Letter of Credit (PLC) accounts operating agencies need to follow this online system developed by DPA and Department of National Budget (DNB) of MOF. These two agencies are the copyright-holders

⁴ Government of Bhutan, Ministry of Finance. 2017. *Public Financial Management Reforms Strategy 2017–2021*. Thimphu. <http://www.MOF.gov.bt/wp-content/uploads/2015/07/PFMReformStrategy2017-21.pdf>

of this online system and have the full control over it. They can view all the financial reports of all government-budgeted agencies and, therefore, submission of such financial reports is not required. Policy and Planning Committee (PPCM) of the Ministry is chaired by the Minister which focuses on policy and coordination across various departments. Financial statements are also reported quarterly to the PPCM.

13. **Staffing.** In Bhutan, each ministry has a finance section which is staffed with accountants. Qualifications of accountants are determined by MOF as those having at least 4 years of experiences as accountants and with training in financial and accounting. They mainly reconcile budgets and expenditures based on the financial records created by each department or project office through the system.

14. **External Audit.** The Royal Audit Authority (RAA) is the supreme audit institution of Bhutan and executes the audit of all government ministries, autonomous agencies and donor-funded projects. RAA has a well-established reputation for independence and effectiveness. Article 25 of the Constitution of Bhutan provides for the appointment of a five-member Public Accounts Committee (PAC) to review and report on the Annual Audit Report of the RAA or on any other report presented by the Auditor General. The PAC is a joint committee of both Houses of Parliament (with members from the ruling and opposition parties) and is governed by the Rules of Procedure of the Public Accounts Committee (2015). As per PEFA 2016, audit reports were submitted to the legislature within 6 months from receipt of the financial reports by the audit office for the last three completed fiscal years and there is clear evidence of follow up by RAA on audits.

15. **Internal Audit.** The Public Finance Act 2007, Public Finance Amendment Act 2012, Internal Audit Charter and Code of Ethics and Internal Audit Manual govern the conduct of internal audit in the government. Ministry of Finance is the parent agency for a government-wide internal audit function. An Internal Audit Central Coordinating Agency reports to the Finance Secretary administratively and to the high-level Committee of Secretaries in case of any disrespect or disregard of any internal audit functions and its recommendations. Internal audit units in the ministries report directly to the heads of the agencies in which they are established. The audits performed by internal audit are characterized by being both risk-based and transaction-based. Acceptance of internal audit has built up in recent years and recommendations are addressed more seriously, though could be strengthened further. Audit now covers almost 90% of government expenditure and all of government revenue. However, internal audit is still primarily focused on compliance with financial regulations and not on the review and analysis of systems.

C. Executing agencies and Implementing units

16. The project will be executed through MOLHR and MOE as the executing agencies, who will establish separate PMUs for the implementation of the project. The PMU for MOLHR will be housed under the DTE which is the department responsible for all the TTIs and TVET programs. The PMU in MOE will be housed under the Department of School Education responsible for school planning and coordination including professional development of the teachers. The project scope expands across some of the line departments and divisions implementing under MOLHR and MOE which will implement some of the activities as project implementing units (PIUs). The Project funds will be managed through a PLCs (project accounts) in MOLHR and MOE respectively. All procurement of goods, works, services and payments will be done at the PMU level and no additional sub accounts will be opened for the Operational units and PIUs.

17. The PIUs to be managed under MOLHR PMU are: Human Resource Skills Development Division under Department of Employment and Human Resources responsible for implementing

training through engagement of private sector, Standard and Quality Division (SQD), Department of Occupational Standards (DOS) responsible for standards development and alignment to Bhutan Vocational Qualifications Framework (BVQF) and Royal Institute of Tourism and Hospitality (RITH)⁵ for implementing the training in certificate level course in tourism and hospitality. Since the two PIUs, HRSDD and SQD are under MOLHR the payments and disbursements for the activities implemented by them will be made directly from the PLC managed by the PMUs. However, RITH is a separate budgetary agency and to this PIU, the MOLHR PMU will provide advances as Deposit Works⁶.

18. Under MOE PMU the PIUs are: School Planning and Building Division (SPBD) responsible for design and supervision of the civil works under MOE component, Career Education and Counselling Division (CECD) with Department of Youth and Sports (DYS) for implementing the Career education program, and Royal Education Council (REC). The disbursements and reporting on the activities implemented by SPBD and CECD will be directly from the PMU. However, to REC as separate agency outside MOE, advances as deposit works will be done.

19. Both RITH and REC as government agencies are staffed with finance and accounts personnel from the Ministry of Finance. Staffing for financial management and accounts and systems for internal and external audit were assessed for these agencies and deemed to be adequate for the project. Both agencies have sufficient staff and adhere to the same financial management practices and requirements. Agreements will be drawn between the Client Agency (MOLHR and MOE) and the Entrusted Agency (RITH and REC) as per the government's prescribed rules and procedures, specifying requirements of the Client Agency, timeframe, reporting and fund release. The statement of accounts for expenditure incurred and supporting documents will be maintained by PIU and submitted in time to the PMUs for booking expenditure in the PLCs. The PMU at MOLHR and MOE will take overall responsibility for the monitoring and coordination of the project with these agencies.

20. While MOLHR and MOE have implemented externally-financed projects, they have limited recent experience in implementing ADB-funded projects as executing agency. Financial management is supervised by administration and finance department of MOLHR and MOE, and internal audit is conducted by the Internal Audit Services Section of MOLHR and MOE. A financial management assessment of the project implementation units was not conducted as no funds will be released directly to the entity (Figure 2).

21. **Project Management arrangements.** At the apex level an interministerial Project Steering Committee (PSC) will be formed to provide strategic guidance, oversight to the Project and ensure coordination across all implementing agencies of both the Ministries including REC. The PSC mandate will include decisions on overall policy direction and approve; annual work plans & budgets, progress reports including financials reports, audit reports and resolve any major issues pertaining to the project. The committee will undertake review of the project progress to ensure timely implementation of all the project components and provide guidance to address

⁵ RITH was established in 2010 by the Royal Government of Bhutan in partnership with the Federal Government of Austria. It is the first institute providing professional training for the Tourism and Hospitality industry.

⁶ These are advances for execution of activities paid to another Budgetary body (in this case, RITH) outside the administrative control of the client Budgetary agency (in this case, MOLHR). The Finance and Accounting Manual 2016 (FAM 2016) covers the detailed procedures and accounting method for handling deposit works advances as well as the role and responsibilities of the client and entrusted agencies. In the project, all project accounting and expenditure statements pertaining to RITH and REC will be undertaken by these agencies respectively and submitted to MOLHR and MOE respectively at the end of the financial year.

any shortfalls. PMU's in both ministries will report to PSC. The details of project management arrangements are provided in Appendix 4.

22. **Accounting policies and procedures.** Both MOLHR and MOE follow the accounting policies and procedures of the government. All government-budgeted agencies, including MOLHR and MOE, are required to follow online budgeting accounting system software called MYRB and PEMS for cash-based double-entry accounting system.

23. **Management Information System.** MOLHR, MOE and MOF use PEMS where all reports are generated. Reports generated from PEMS by Department of Public Accounts (DPA) on fund receipt and expenditure statements are used for reconciliation. Audit is also based on the DPA Financial Statements and only the donor specific requirements of reconciliation summary are prepared in Excel if the reports from PEMS are not acceptable. The APFSS and the reconciliation summary is then certified by RAA for submission to the donors.

24. **Safeguard over Assets.** Under MOF, the key objectives of Department of National Properties (DNP) is to:

- (i) Ensure proper maintenance of government property and prevent pilferage and loss of such properties;
- (ii) Maintain a nationwide inventory records of all government assets;
- (iii) Generate revenue for the government through timely disposal of obsolete government properties through auction;
- (iv) Improve procurement guidelines and develop capacity building of procurement procedure; and
- (v) Achieve cost cuts for the government through central procurement.

25. Procedures for acquisition, improvement or construction of properties have been prescribed in Procurement Manual and FAM 2016. Some of the procedures considered essential for up-keeping of proper inventories of all Government properties, establishment of and adherence to maintenance schedules, ensuring economic and rightful utilization, establishing depreciation process and procedures, disposal of assets and establishment of accountability are prescribed in this Manual. Assets Inventory Management System (AIMS), a web-based system has been developed. MOLHR and MOE use AIMS and Fixed Asset Registers to adequately safeguard or protect assets from fraud, waste and abuse.

26. **Internal Controls.** FAM 2016 of the government stipulates that all agencies shall be responsible for establishing proper working systems and procedures including transparent and well-defined controls and checks within the respective agencies for achieving, as far as practicable, the financial management and accountability objectives of the government. This shall ensure that:

- (i) Functions are carried out in the prescribed, orderly and proper way;
- (ii) Assets are managed properly and efficiently;
- (iii) Accounting principles and procedures are adhered to;
- (iv) Frauds and errors are prevented and/or detected at the earliest;
- (v) Accounting records are complete and accurate; and
- (vi) Accounting information is prepared and submitted timely.

27. While the prescribed accounting procedures shall address most of the above objectives in the prescribed rules, the heads of agencies shall be responsible for ensuring that a proper system of internal control exists in their respective agencies.

28. It also describes that the system of internal control in an agency shall, among others, ensure that different stages of a transaction process are handled by different persons. In particular, the verifying officer, the sanctioning authority and disbursement officers shall be different persons.

29. Compliance with this internal control requirement including proper periodical registration and reconciliation of fixed assets is audited periodically by RAA on a yearly basis for each account managed by each government agency. However, there are some gaps in internal controls and the World Bank has provided support through its Strengthening Public Financial Management in Bhutan project which was completed in December 2016.⁷ In PEFA 2016, serious weakness in internal controls in PEMS payroll module were identified and significant observations by the auditors were made on the adequacy of controls to ensure integrity of the payroll data.⁸ Time-bound action plan was developed for DPA to analyze and develop appropriate format/datatype and other possible validation to provide adequate processing control in the system.

30. **Internal Audit.** Internal audit is conducted by the Internal Audit Services Section in MOLHR and in MOE. The section consists of one Internal Auditor and one Assistant Internal Auditor. In MOE, the main finding was related to account reconciliations as the concerned persons were not familiar with the process. These reconciliation issues were subsequently resolved. In MOLHR, one of the main finding was administrative lapses in procurement related matters. The incidences occurred primarily when officials skipped certain procedures to expedite procurement. Over the past three years, such procurement related lapses have significantly reduced. The other finding was weak physical fixed asset verification plan. While fixed asset register was maintained, the fixed assets were not tagged properly resulting in difficulties in physical verification. Now the periodic physical verification plan is reported to be working well.

31. The World Bank is supporting the strengthening of internal audit, MOF's public accounting functions and the implementation of Bhutanese Accounting Standards (BAS). DPA is located within MOF and it will assist the government to implement its Public Financial Management Reform Program.

32. **External Audit.** Audits are conducted by RAA on a yearly basis for all accounts managed by any government agencies including local governments. Audit Reports are the immediate output of the Royal Audit Authority. The audit reports are issued upon completion of the particular audit and it is addressed to appropriate authorities to take timely actions on issues contained in the reports. The RAA adheres to the prescribed timeframe in issuing reports after completion of the field audit to ensure that those responsible initiate timely actions. RAA conducts financial audit reports, compliance audit reports, performance-based audit reports and special audit reports annually. The financial audit reports pertain to the financial audit of Letter of Credit Accounts, Current Deposit Accounts, Revolving Fund Accounts, etc. of budgetary agencies and the accounts and operations of non-budgetary agencies such as Corporations and Financial Institutions, Civil Society Organizations, Political Parties, etc. It also includes audit reports for certification of donor-assisted projects implemented by various agencies, both budgetary and non-budgetary.

⁷ The World Bank. 2012. *Strengthening Public Financial Management in Bhutan*. Washington DC.

⁸ RAA. 2016. *IT Audit report on Effectiveness of controls in Public Expenditure Management Systems*. Thimphu.

33. **MOLHR Annual Audit Report 2015 and 2016.** During this period, the RAA had issued 34 audit reports of the MOLHR and its Departments, Divisions and Units out of which majority of them have been resolved. While the total unresolved significant irregularities are not material and are categorized under mismanagement and shortfalls, lapses and deficiencies, lessons learnt from these cases would help in improving the internal controls. In Annual Audit Report (AAR) 2015, it was mentioned that Department of Human Resources (DOHR) had made inadmissible payment of price adjustments for the construction of Vocational Training Institute at Dolungang in contravention of the General Conditions of contract. In AAR 2016, DOHR had made inadmissible payment in a Government of India funded construction of Vocational Training Institute. The inadmissible payment occurred as the additional works were within the scope of works covered under lump-sum contract and in context to Addendum issued. The lesson learned is to strengthen PMU monitoring and inspection of physical progress of civil works in line with the contracts and payments by staffing it with procurement officer, project accountants and project engineer along with support from other staff and consultants.

34. **MOE Annual Audit Report 2015 and 2016.** In 2016, the RAA had issued 30 audit reports of the MOE and its Departments, Divisions, Units and Central Schools. There were 56 observations pointed out in the reports out of which majority of them were resolved. Though the total unresolved significant irregularities reflected are not material and were due to fraud, corruption and embezzlement, mismanagement, violation of laws and rules and shortfall, lapses and deficiencies, the lessons learnt from these cases aid in improving the related rules, procedures and controls. In 2015, there was no audit detail on MOE. In AAR 2016, there was a case with possible element of fraud, corruption and embezzlement in a MOE International Assisted project funding the construction of retaining wall. There were also cases of violations of laws and rules involving expenditure booked without vouchers, awarding contract without adhering to procurement facilities and financial norms as well as supplies not received by the school management. The lessons learned are: (i) all procurement of goods, works, services and payments are done at PMU level and no additional sub-accounts to be opened for the operational units and PIUs; and (ii) PMU should conduct periodic physical inspection of goods, equipment and civil works at the implementation site.

35. **RAA and ADB-funded Bhutan Skills Development Project.** ADB-funded Basic Skills Development project (BSDP) with Department of Human Resources (now Department of Technical Education), MOLHR (originally the National Technical Training Authority) for SDR 5.55 million was approved in 2001 and completed in 2008. The changes in executing agency were a result of the government restructuring in June 2003. In September 2009, the RAA pointed out 24 irregularities.⁹ The primary reason for irregularities was insufficient internal financial supervision caused by high turnover in the project management team. Moreover, project accounting was not included in the MOLHR's overall accounting system but operated separately by the PIU contributed to weak financial oversight. The initial lack of project staff posed a challenge to expanding and accelerating activities to meet the project objectives in a timely manner. The staff shortage continued more than 2.5 years after project inception. The MOLHR has subsequently addressed 11 of them. Out of the remaining 13 cases outstanding, eight were forwarded to court, one was investigated by Anti-Corruption Commission and four were likely to be dropped. Appropriate lessons have been learnt from this project experience to prevent occurrence of such irregularities. The lessons learned are: (i) PMU should be adequately staffed at the start of the project with dedicated fulltime resources such as Project Director, Project Manager, Project accountant, Project Engineer and Procurement Officer to allow timely implementation, decisions

⁹ ADB.2010. *Completion Report: Bhutan Basic Skills Development Project*. Manila (para 29).

on issues and monitoring of the project; (ii) PMU should manage project-related procurement and payments at their level with preferably no sub-accounts being managed at PIU level.

36. **Audit Follow Up mechanism.** After completion of audit there are follow up procedures in place to address the audit observations after issuance of audit report. Unsettled audit issues are reflected in the report and the agencies are given 3 months' time for further follow up during which the respective agencies submit action report. There is a Finance and Audit Committee (FAC) at the highest level chaired by Finance Minister and Auditor General for taking up serious issues. Punitive actions have been taken on the issues including 24% per annum penal interest charges on the recoverable amount.

37. In the subsequent years audit reports of previous years are also referred to ensure that the lapses do not reoccur. The agencies have also strengthened their internal mechanism by ensuring competent procurement and internal audit staff.

38. Since 2010 with the use of a more robust finance and accounting system of PEMS and MYRB most of the issues of lapses has been addressed.

D. Strengths

39. The following strengths have been identified based on the FMA:

- (i) **Financial Rules and Regulations (FRR).** The government has been making good progress in strengthening PFM. The government is guided by the FRR 2016. In the revised FAM 2016, the accounting, budgeting and reporting systems have been simplified and redundancies have been removed making it more dynamic and user friendly. It defines the role and responsibility of each governmental agency, external auditor and other related agents. It covers all key aspects of financial management, i.e., physical asset management, cash flow management, procurement, debt management, budget, accounting system, internal control, record keeping and reporting, following the international practices and standards.
- (ii) **Information Systems.** The government has been using key robust systems for PFM—the Multi-Year Rolling Budget System (MYRB) and Public Expenditure Management System (PEMS) for many years. All budget incorporation and releases to the agencies are online using these two systems besides generating reports.
- (iii) **External Audit.** Royal Audit Authority is a strong external auditor which places emphasis on personal accountability in holding individuals accountable for their PFM responsibilities and imposing personal sanctions until rectification is complete.

E. Weaknesses

40. The following weakness were identified as fiduciary risk in the initial assessments of systems and processes:

- (i) **Internal audit.** While the government has made good progress in terms of expanding internal audit in all government funded agencies, it is not yet mature and is primarily focused on financial compliance and not on the review and analysis of systems. Acceptance of internal audit has built up in recent years

and recommendations are addressed more seriously, though could be strengthened further. In the project, the role of internal audit is to provide independent assurance that risk management, governance and internal control processes in financial management and procurement areas in the respective ministries are operating effectively.

- (ii) **Management of non-financial (physical) assets.** The responsibilities for monitoring non-financial assets are clearly articulated in the Property Management Manual of the FRR 2016. The responsibility for proper accounting, safeguarding and utilization vests with the Head of Office who may delegate, without disowning his/her accountability, to subordinate officials called Property Officers. However, government follows cash basis accounting and capital expenditures are expended on a year-to-year basis. Therefore, the account balances are not carried forward in subsequent years, indicating absence of adequate financial control. It is important that government agencies maintain accurate and up-to-date memorandum records and exercise adequate administrative, supervisory and other controls including physical controls over the custody, use and control of government property. Further, periodic maintenance of property is necessary to render them economically useful. The introduction of web-based inventory system-AIMS by DNP will help government agencies in management of physical assets.

F. Risk Analysis

41. The risk assessment and mitigation measures are shown in Table 2 and Table 3, in which the assessment on fund flow, accounting and reporting, internal control, external and internal audit is described:

- (i) **Risk Analysis.** A Financial Management Internal Control and Risk Management Assessment was conducted which considered existing arrangements, staffing and procedures in the MOLHR and MOE, and includes recommendations for risk mitigation measures. Based on the assessment, it is concluded that the overall project financial management pre-mitigation risk is Substantial which can come down to moderate after mitigation measures have been taken.
- (ii) **Inherent Risk.** Inherent Risk is the susceptibility of the project financial management system to factors arising from the environment in which it operates, such as country rules and regulations and entity working environment (assuming absence of any counter checks or internal controls).

Table 2: Financial Management Risk Assessment – Inherent, entity and project-specific risks and mitigation measures

| Risk type | Risk Assessment | Risk Description | Risk Mitigation Measures |
|--------------------------------------|-----------------|--|--|
| 1. Country-Specific Risks MOF | M | Country PFM systems are not adequately robust. | While the country PFM systems are more robust than comparable countries, implementation of PFM Reforms Strategy 2017–2021 is still underway. |

| Risk type | Risk Assessment | Risk Description | Risk Mitigation Measures |
|---|-----------------|--|--|
| | | | Further enhancement of the public financial management system is needed to consolidate recent reforms, close gaps, improve transparency and accountability, build domestic revenue, and integrate or interface several stand-alone computerized information systems. |
| 2.Entity-Specific Risks MOLHR MOE | S | Financial and Operational Risk – PMUs in MOLHR and MOE do not have enough financial management staff assigned to perform project related work. | PMUs are being set up for implementing the project at both Ministries along with clear organizational structure and specific terms of reference for PMU staff and experts (Appendix 4). |
| 3. Project-Specific Risks MOLHR MOE | S | Project Completion Risk –Assigned PMU staff would not have sufficient understanding of ADB's financial management requirements, disbursement procedures to manage the project fund flows which may contribute to delays in project implementation. | ADB to provide financial management training to PMU and PIU staff to clarify ADB's requirements including disbursement, financial reporting and audit requirements. |
| Overall Assessment of Inherent Risk | S | | |

H = High, S = Substantial, M = Moderate, N = Negligible or Low

The overall inherent risk can come down from Substantial to Moderate after mitigation measures have been taken

- (iii) **Control Risk** – Control Risk is the risk that the project's accounting and internal control framework are inadequate to ensure project funds are used economically and efficiently and for the purpose intended, and that the use of funds is properly reported.

Table 3: Financial Management Risk Assessment - Internal control risks and mitigation measures

| Risk type | Risk Assessment | Risk Description | Risk Mitigation Measures |
|--|------------------------|---|---|
| 1. Implementing Entity MOLHR MOE | S | Compliance Risk – Project financial management policies and procedures/financial covenants of the legal agreement are not fully followed. | PMU Director and Project Accountant in MOLHR and MOE to be responsible for adherence to policies and procedures, disbursement of eligible expenditure, monitoring of budget and preparation of project financial statements on a timely basis. |
| 2. Budgeting MOLHR MOE | M | Budget preparation and monitoring are not timely and do not address operation and maintenance requirements | All budgeting, releases and expenditure tracking is done online using MYRB and PEMS which are integrated giving a common report. Budgetary controls are in place. Budget for operations and maintenance will be planned by the respective agencies when the civil works are completed and equipment are installed. |
| 3. Internal control MOLHR MOE | S | Contract compliance procedures and internal controls are inadequate, with inadequate follow up on internal and external audit reports. | The PMU will develop procedures to administer, monitor, and control contracts. The PMU will be supported by Project Engineer, Project Procurement officer, Project Accountant and Design and Supervising consultants to ensure that civil works contractors comply with contractual terms and specifications. Internal Audit of the respective ministries will present half-yearly internal audit reports to the steering committee. The role of internal audit is to provide independent assurance that risk management, governance and internal control processes in financial management and procurement areas in the respective ministries are operating effectively. An annual statutory external audit report will be submitted within six months of the end of the financial year together with action taken report on audit observations. |
| 4. Funds Flow MOLHR MOE | M | Financing Risk – Counterpart funds are not provided timely and adequately in FY 2018/19 due to upcoming national | The ministries should provide clarity on timing of the counterpart funds available for this project in 2018-19 to properly plan for funds flow. Typically, in a non-election year, the |

| Risk type | Risk Assessment | Risk Description | Risk Mitigation Measures |
|---------------------------------|------------------------|---|---|
| | | elections. | Ministries prepare 3-5 years project budget and update on annual basis. The government allocates sufficient budget for counterpart funds and release these on a timely basis. MOLHR and MOE will coordinate with MOF to ensure adequate budget allocation |
| 5. Staffing MOLHR MOE | S | Execution Risk – Adequate financial management staff has not been provided for the PMUs. The PMU and PIU staff do not have good understanding of financial management requirements and procedures which contributes to project delays and non-compliance with requirements. | PMUs are set up for implementing the project at both Ministries with full time dedicated staff for financial management and procurement. (Appendix 4) |
| 6. Accounting and Reporting | L | Incomplete and inaccurate financial reporting | Computerized accounting (PEMS) and asset inventory management system (AIMS) will be used for the project. |
| 7. External Audit | L | Compliance Risk – Audit requirements are not fully complied with due to external auditor's limited understanding of ADB's requirements. | RAA has a good understanding of audit requirements for donor-funded projects. It provides audit reports for certification of donor-assisted projects implemented by various agencies, both budgetary and non-budgetary. However, an update on ADB's requirements would be beneficial for RAA's staff. |
| 8. Reporting and Monitoring | M | Financial Risk – Delayed submission of financial reports by PMU to ADB undermines ADB's ability to assess MOLHR's and MOE's capacity to implement and maintain the project | A template for annual project financial reports will be agreed between the government and ADB at the start of the project and close monitoring will be done for timely preparation of financial reports |
| 9. Information Systems | L | Incomplete and inaccurate financial reporting | Finance and accounting staff are well versed with MYRB and PEMS. Data can be imported into Excel to prepare donor-specific reports if standard reports from PEMS do not suffice. |
| Overall Control | S | | |

| Risk type | Risk Assessment | Risk Description | Risk Mitigation Measures |
|-----------|-----------------|------------------|--------------------------|
| Risk | | | |

H = High, S = Substantial, M = Moderate, N = Negligible or Low

42. The overall control risk can come down from Substantial to Moderate after mitigation measures have been taken.

G. Fund Flow Procedures

43. Advance fund procedures will be used for disbursement of local currency payments. An Advance account will be opened for expenses under the project at the Royal Monetary Authority (RMA). ADB funds will be disbursed to the Advance account in RMA in US dollars. DMEA upon receipt of Credit Advice from RMA and fund request from the PMUs will transfer the fund to Government Budget Fund Account with DPA. DPA, based on the request by the PMUs using the government online system, will release the funds to respective PLCs maintained by the implementing agencies MOLHR and MOE. PMUs in MOLHR and MOE will be responsible for disbursing payments and reconciliation of the project account. Each PMU will also prepare their own statement of expenditures. However, MOLHR PMU as the coordinating unit will consolidate reports to process as one withdrawal application. Withdrawal applications will specify part A-MOLHR and part B-MOE for the two agencies. Withdrawal applications will be routed through DMEA for submission to ADB for liquidation or replenishment of project account. DMEA will also be responsible for reconciliation of advance account in RMA with project accounts before submitting withdrawal applications to ADB.

44. No additional accounts will be opened for the other implementing/supporting departments and divisions under the respective Ministries. All financial responsibility will rest on the respective PMUs. However, for project activities to be implemented by RITH under the MOLHR component and REC under the MOE component being separate government budgetary agencies will be advanced as deposit works. As per the Finance and Accounting Manual (FMA 2016) of MOF, any work or service, execution of which is entrusted by Budgetary body to another Budgetary body with technical capacity is done through deposit works arrangement.¹⁰ Release to RITH will be advanced as deposit work from the MOLHR PMU. Similarly, releases to REC from MOE PMU will be advanced as deposit works based on agreement.

45. The agreements will be drawn between the Client Agency and the Entrusted Agency as per the government prescribed rules and procedures, specifying requirements of the Client Agency, timeframe, reporting and fund release. The statement of accounts for expenditure incurred and supporting documents will be maintained by PIU and submitted in time to the PMUs for booking expenditure in the PLCs.

46. Advance payments to the Advance accounts may be requested. However, the total outstanding advance to the Advance accounts should not exceed the estimate of ADB’s share of expenditures to be paid through the Advance accounts for the forthcoming 6 months. The executing agency may request initial and additional advances to the Advance accounts based on an Estimate of Expenditure Sheet¹¹ setting out the estimated expenditures for the forthcoming 6

¹⁰ MOLHR is the Client Agency and RITH is the Entrusted Agency, MOE is the Client Agency and REC is the Entrusted Agency.

¹¹ Available in Appendix 8A of *ADB’s Loan Disbursement Handbook* (2017, as amended from time to time).

months. Supporting documents should be submitted to ADB or retained by the grant recipient, executing agency or implementing agency in accordance with ADB's Loan Disbursement Handbook (2017, as amended from time to time) when liquidating and replenishing the Advance accounts.

47. **Statement of expenditure procedure.**¹² Statement of expenditure (SOE) procedures may be used for reimbursing eligible expenditures or liquidating advances to the Advance account. Supporting documents and records for the expenditures claimed under the SOE should be maintained and made available for review by ADB's disbursement and review missions, upon ADB's request for submission of supporting documents on a sampling basis, and for independent audit.

48. **Disbursement procedure.** ADB Advance account disbursements procedure will be used for local currency portion and direct payment procedure will be used for foreign currency payment. The usage of Advance account procedures has been adopted for previous ADB-funded projects in the country, following the established government budget and fund management system, which executing agencies are familiar with.

49. The fund flow mechanism proposed for the project is detailed herein and schematically presented thereafter:

- (i) The proportion of ADB Funds intended to meet the domestic expenses within the project, will be disbursed into the Foreign Currency Advance Account established by the MOF at the Central Bank—the Royal Monetary Authority (RMA), in favor of the DMEA, MOF in US Dollar.
- (ii) DMEA, MOF upon receipt of Credit Advice from the RMA and fund requests from the PMU, MOLHR, will transfer the requested fund to the Government Budget Fund at the DPA, MOF, in local currency.
- (iii) The implementation agencies within MOLHR and the MOE will prepare budget estimates for implementing their respective project components, in close coordination with their respective PMUs. A formal fund request shall be made by the PMU, MOLHR to the DMEA, MOF, on behalf of all the implementation agencies and the MOE.
- (iv) With the approval of DMEA, the PMU, MOLHR will make fund-release request to the DPA, through the government online system – PEMS.
- (v) The DPA, based on the DMEA-approved fund request(s) from the PMU, MOLHR will release the funds through the government online system to the respective PLCs maintained at the MOLHR and MOE, depending on the quantum of funds requested against each of the project components.
- (vi) Payment requests with necessary supporting documents and invoices will be submitted by vendors, contractors, and consultants to the respective PIUs established under the project, based on specific activities undertaken and expenses incurred by each of them. Payments against the invoices and the claims

¹² SOE forms are available in Appendix 7B and 7D of ADB's *Loan Disbursement Handbook* (2017, as amended from time to time).

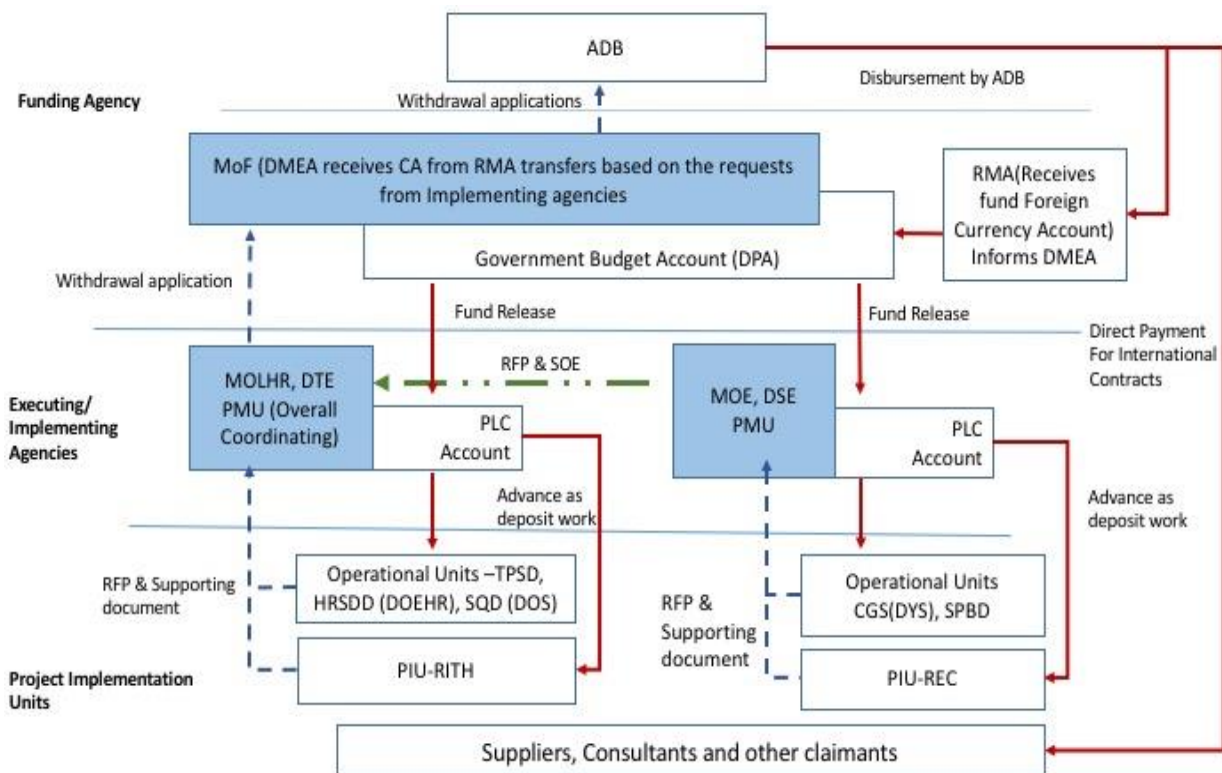
received from the PIUs shall be released by the PMU to the respective vendors, contractors and consultants, after due verification of the expenditure statements, invoices/bills, supporting documents, and relevant contract conditions. All the claims and invoices corresponding to the expenditures incurred by each implementing agency will be consolidated by the respective PMUs at MOLHR and MOE, and accounted therein.

- (vii) Fund release to the two PIUs: (i) RITH under the MOLHR component, and (ii) REC under the MOE component, will be made as advance for deposit works, as these entities are separate budgetary agencies. RITH and REC will deposit the advances in to their own LC accounts and will make payments against approved expenditure. These two PIUs will ensure timely submission of the statement of accounts and supporting documents to their respective PMUs for liquidating the advances on the PLCs.
- (viii) Each PMU will reconcile their own accounts and documents received from their PIUs. The PMU at MOLHR will consolidate the claims of the PMU, MOE and all other implementing agencies under the project, and prepare a withdrawal application with necessary supporting documents. The PMU, MOLHR will submit withdrawal application along with the supporting documents to the DMEA.
- (ix) DMEA will review and check the withdrawal application with supporting documents received and reconcile with Advance Account for onward submission to ADB. The Credit and Expenditure financial statements developed by the DPA through the PEMS, for each of the PLCs will be the basis of reconciliation.
- (x) The annual financial statements will also be generated by DPA and an overall reconciliation summary will be prepared on Microsoft Excel for the entire project by MOLHR PMU. These financial statements will be audited and certified by Royal Audit Authority (RAA) for submission to ADB along with the annual audit report within 6 months of the end of the financial year.

H. Fund Flow Diagram

50. The following diagram shows how the funds will flow from ADB to the Grant Recipient to implement the project activities.

Figure 2: Fund Flow Diagram



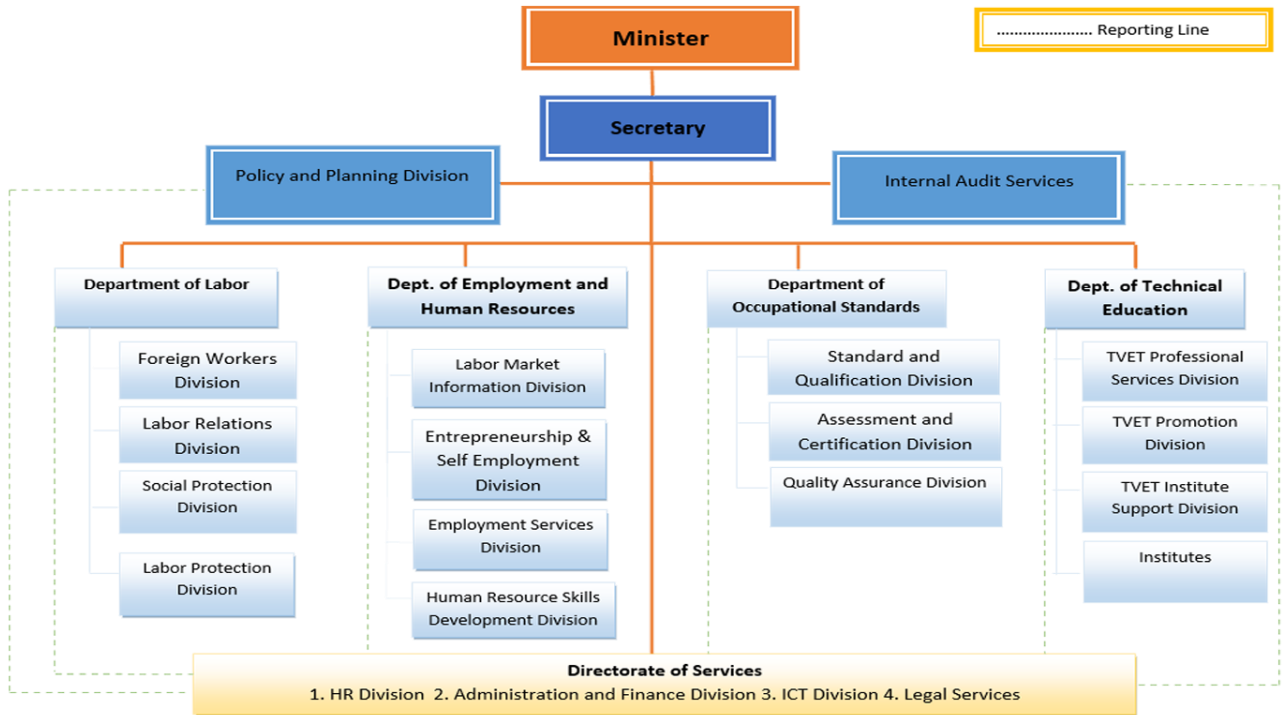
| Line of reporting | Crucial Communication | Flow of Fund | PLC – Project letter of Credit (sub accounts) | CA- Credit Advice |
|--|---------------------------------------|------------------------------|---|---|
| RFP- Request for Payment | SOE-Statement of Expenditure | RMA-Royal Monetary Authority | DMEA-Department of Macro Economic Affairs | DPA-Department of Public Accounts |
| DSE-Department of School Education | DTE-Department of Technical Education | REC-Royal Education Council | SPBD- School Planning & Building Division | CGC, DYS- Career Guidance and Counselling |
| All hard currency payments will be done directly by ADB All local currency payment will be through the Advance Account in RMA | | | | |

I. Suggested Covenants

51. Schedule 5 of the legal agreement shall require the implementation of the Financial Management Action Plan as stipulated in the Project Administration Manual.

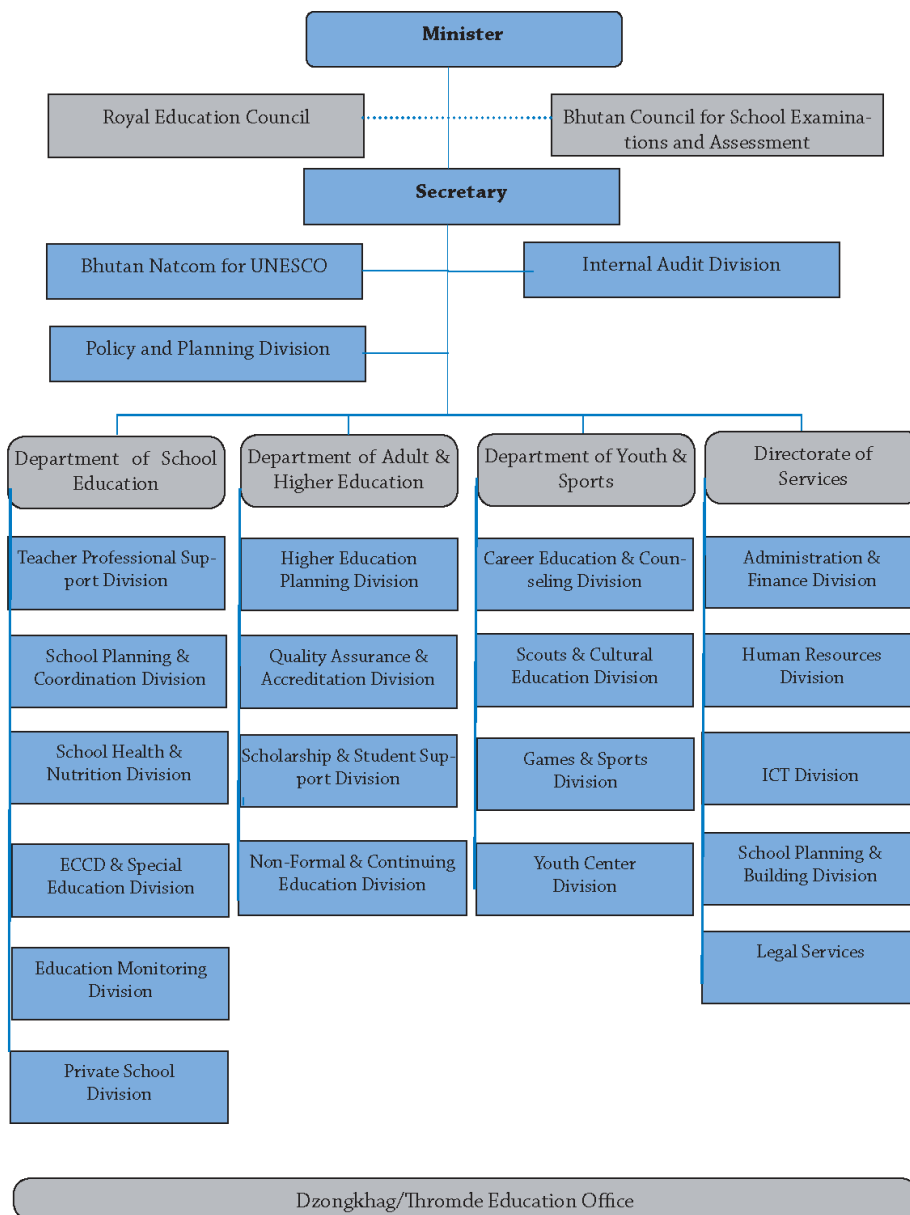
52. Mandatory annual external audit reports will be submitted within 6 months of the completion of the financial year. From Year 2, external audit reports will be accompanied by action taken report on the previous year’s audit observations.

APPENDIX 1 Organization Chart of MOLHR

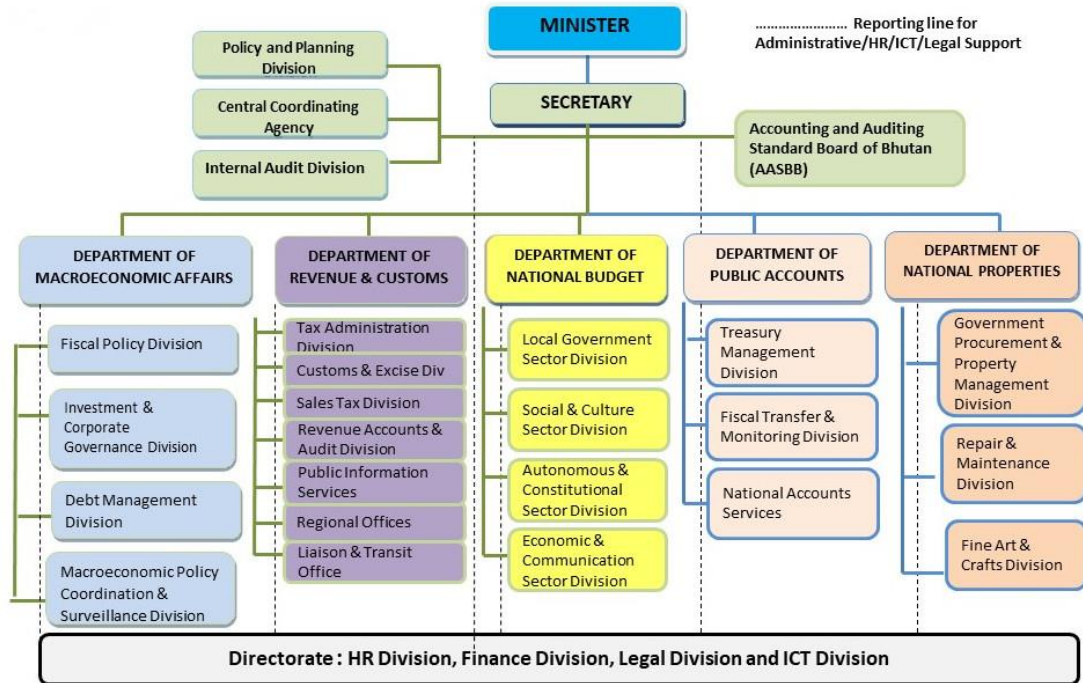


APPENDIX 2 Organization Chart of MOE

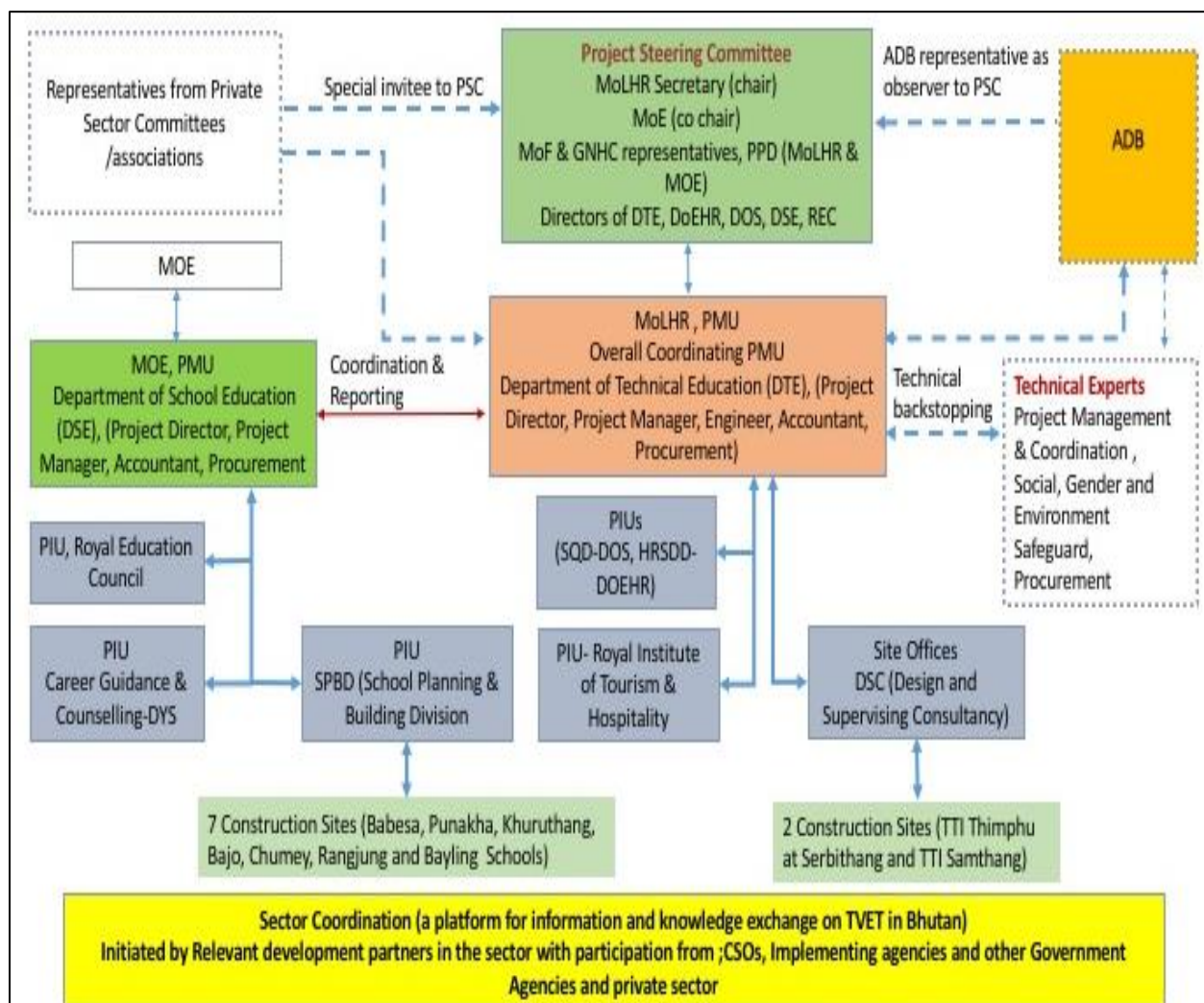
Organizational Chart of the Ministry of Education



APPENDIX 3 Organization Chart of MOF



APPENDIX 4 Project Management Arrangements¹³



CSO = Civil Society Organization, DTE = Department of Technical Education, DSE = Department of School Education, GNHC = Gross National Happiness Commission, HRSD-DOEHR = Human Resource and Skills Development Division of Department of Employment and HR, MOE = Ministry of Education, MOF = Ministry of Finance, MOLHR = Ministry of Labor and Human Resources, PPD = Policy and Planning Division, REC = Royal Education Council, RITH = Royal Institute of Tourism and Hospitality, SQD DOS = Standards and Quality Division of Department of Occupational Standards.

A. Project Steering Committee

1. At the apex level, an interministerial Project Steering Committee (PSC) will be formed to provide strategic guidance, oversight to the Project and ensure coordination across all

¹³ MOLHR-Ministry of Labour and Human Resources, MOE- Ministry of Education, MOF-Ministry of Finance, GNHC-Gross National Happiness Commission, PPD-Policy and Planning Division, DTE-Department of Technical Education, DSE-Department of School Education, REC-Royal Education Council, RITH-Royal Institute of Tourism and Hospitality, SQD DOS-Standards and Quality Division of Department of Occupational Standards, HRSD-DOEHR- Human Resource and Skills Development Division of Department of Employment and HR, CSO-Civil Society Organization

implementing agencies of both the Ministries.

2. The PSC will invite representatives from the private sector associations/committees depending on the meeting agenda. Engagement with private sector at the PSC level is expected to address skills gaps, skills requirements and emerging technology. A representative from ADB may also be invited to attend the steering committee meeting as observer

3. PSC Composition

- (i) Secretary, MOLHR (Chair)
- (ii) Secretary, MOE (Co-chair)
- (iii) Director, Department of School Education
- (iv) Director, Royal Education Council
- (v) Director, Department of Employment
- (vi) Director, Department of Occupational Standards
- (vii) Representative from GNHC (Chief/Director as decided by GNHC)
- (viii) Representative from MOF (ADB focal person from DMEA)
- (ix) Chief Planning Officer, Policy & Planning Division, MOLHR
- (x) Chief Planning Officer, Policy & Planning Division, MOE
- (xi) Director, Department of Technical Education ((Member Secretary)
- (xii) Representative from Private Sector (associations/sector committees) as special invitee
- (xiii) Representative from Ministry of Economic Affairs (as required)
- (xiv) ADB representative invited as observer

4. PSC Responsibility

- (i) The PSC mandate will include decisions on overall policy direction and approve; annual work plans & budgets, progress reports including financials reports, audit reports and resolve any major issues pertaining to the project.
- (ii) The committee will undertake review of the project progress to ensure timely implementation of all the project components and provide guidance to address any shortfalls.
- (iii) The PSC will meet once a quarter for the first two years and at least biannually and, as and when required. It will meet once in July to review both physical and financial progress. Then it will meet in December/January for endorsement of work plans and budget and this should happen not later than the date for submission of budget to Ministry of Finance as per the RGoB Fiscal year. The meetings in March and October would be to review qualitative progress and track progress.

B. PMUs Under the Project

5. There will be two PMUs, MOLHR PMU housed under the Department of Technical Education and MOE PMU to be housed under the Department of School Education.

a. Functions of PMU

6. The PMUs, under the guidance and oversight of the Directors of DTE and DSE as the Project Director supported by the Project Managers will be responsible for:

- (i) Day to day management, monitoring and coordination for implementing the project.

- (ii) Coordinate and prepare implementation plans, annual budgets and disbursement projections in coordination with the OPs and PIUs
- (iii) Lead and coordinate all services, works and goods procurement and evaluation under the project as per the ADB requirements
- (iv) Prepare and maintain consolidated project financial and physical progress reports (quarterly, annually and project completion) for submission to PSC & ADB
- (v) Review of project progress against planned targets, output and outcome level progress tracking
- (vi) Monitor all the PIUs and the site through frequent site visits and reporting of findings
- (vii) Provide gender disaggregated data analysis and reporting
- (viii) Ensure environment safeguards compliance in bidding documents, compliance by contractors, implementation of risk mitigation plans and reporting as per ADB's requirements
- (ix) Reconcile project accounts and ensure timely requests and release of fund to the support departments/PIUs. Overall project fund reconciliation after every fiscal year closing and as required by ADB.

b. PMU Staffing

| PMU, MOLHR | PMU, MOE |
|---|---|
| Fulltime appointed Government staff <ol style="list-style-type: none"> 1. Project Director (DTE Director) 2. Project Manager (Fulltime DTE staff appointed by MOLHR) 3. Project Accountant (Fulltime Accountant appointed by MOLHR) 4. Project Procurement (Fulltime appointed by MOLHR) 5. Project Engineer (Fulltime appointed by MOLHR) | Fulltime appointed Government staff <ol style="list-style-type: none"> 1. Project Director (Director, DSE) 2. A Project Manager (full time dedicated) 3. Finance/accounts officer (full time dedicated) 4. Procurement officer (full time dedicated) |
| Key Experts on Contract <ol style="list-style-type: none"> 1. Project Management & Coordination Specialist (fulltime) 2. Pool of National/International Experts (TVET Expert, Finance & Management, Environment, Social & Gender Safe Guard Specialist, Procurement Specialist) Procurement specialist inputs will be more intensive in the first two years, likely full time. | Some of the experts under MOLHR PMU like the Project coordinator, procurement specialist, F&M and environment will also cover the PMU in MOE |

C. Project Implementation Units

7. Various activities and components of the project will be implemented by the line departments and divisions. Fairly senior officers will be identified as the Project focal officers for the PIUs.

| PIUs under MOLHR PMU | PIUs under MOE PMU |
|--|--|
| HRSDD, DOEHR. Coordinate the implementation of training of youths in partnership with private training providers. | SPBD. Design and supervision of the TVET lab construction. |
| SQD, DOS. Standards development and alignment by Bhutan Vocational Qualifications Framework (BVQF) | CECD, DYS. Implement the career guidance and counselling activities, world of work exposure |
| RITH. Training 250 students in 1 year certificate level in Hospitality and Tourism Course | REC. Curriculum Development of TVET electives, PVOPs and vocational clubs |

a. The PIUs under MOLHR PMU. All PIUs will report through the PMU:

8. **HRSDD, DOEHR.** Implementing the targeted training of youths under the project, through partnership modalities with private sector and other training providers.

9. **SQD, DOS.** Implementing the standards development and alignment by BVQF for the new and upgraded courses to be introduced in the TTIs. The standards development and alignment to BVQF for training courses to be outsourced to private sector will also be facilitated by DOS.

10. **RITH.** The Royal Institute for Tourism and Hospitality will be the implementing unit for training 250 students targeted to be trained in Food Production. The implementation arrangement will be in the form of deposit works with fund advanced from PMU as per the RGoB Finance and Accounting Manual 2016 and prescribed rules. An agreement will be drawn up between the MOLHR as the Client Agency and RITH as the Entrusted Agency outlining the key deliverables, fund release and reporting requirements.

11. Both HRSDD & SQD are under MOLHR, therefore no subaccounts for these PIUs will be opened and all payments will be processed by the PMU. However, RITH is a separate agency and not under MOLHR, so PMU, MOLHR will make advance fund release to RITH as deposit work.

12. Responsibilities of RITH:

- (i) Implement training in line with the project, assuring quality and in timely manner
- (ii) Ensure timely submission of expenditure statements and supporting documents
- (iii) Maintain all records for access by PMU, RAA and ADB for review
- (iv) Facilitate placement of the graduates with the support of Tourism Council of Bhutan
- (v) Attend monthly PMU meeting for coordination, planning, budgeting and reporting

b. PIUs under MOE PMU

13. **SPBD** will be responsible for all civil works related to the establishment of the basic lab infrastructure in the seven identified schools. The Unit will supervise the civil works and certify quantities of work. Four dedicated project engineers will be placed by SPBD at the construction sites in the schools to supervise the civil works and certify quantity of works for payments by the PMU to the civil works contractor. The civil works contractor will establish a site office at the construction sites to manage day to day implementation.

14. Career **Guidance and Counselling Division, DYS** will be responsible for implementing the career guidance and counselling activities under the project.

15. **REC** as the implementing unit will be responsible for all activities pertaining to curriculum mapping/development for the Vocational elective, prevocational program and vocational clubs in the pilot schools. The implementation arrangement will be in the form of deposit works with fund advanced from PMU as per the government's Finance and Accounting Manual 2016 and prescribed rules. An agreement will be drawn up between the MOE as the Client Agency and REC as the Entrusted Agency outlining the key deliverables, fund release and reporting requirements.

16. Both SPBD and CECD, DYS are under MOE, therefore no subaccounts for these PIUs

will be opened and all payments will be processed by the PMU. However, REC is a separate agency not under MOE, so, PMU, MOE will make advance fund release to REC as deposit work.

17. **Responsibilities of REC**

- (i) Implementation of curriculum and learning material development for the vocational programs in the 7 pilot schools assuring quality and delivery in timely manner
- (ii) Ensure timely submission of expenditure statements and supporting documents
- (iii) Maintain all records for access by PMU, RAA and ADB for review
- (iv) Attend monthly PMU meeting for coordination, planning, budgeting and reporting

D. Support Departments and Divisions

18. The **Directorate Services** of MOLHR and MOE will support the project implementation in all matters pertaining to procurement, project finance and accounts management.

19. **PPDs** will support the project to ensure coordination and synergy across all line departments, policy guidance and alignment to the Twelfth Five-Year Plan.

20. **PMU Coordination Meetings**

- (i) The PMUs will convene monthly project coordination meeting with participation by all the focal officers from the PIUs including focal officer from PPD, DSC and relevant representatives from the directorate services
- (ii) PMU will report to the PIUs on the progress of the project against plan
- (iii) Report on fund status, fund release details and expenditures
- (iv) Implementation challenges and issues by the PIUs will be addressed during the coordination meeting
- (v) All the PIUs will report to the respective PMUs on progress (physical and financial), implementation issues or emerging opportunities.
- (vi) Through the PMU meetings the PIUs will be kept updated on the project target, timeline and resources available
- (vii) Endorse important terms of reference of short-term consultants
- (viii) Coordinate missions of consultants, ADB representatives and other visitors

E. Joint (two PMUs) Project Coordination Meetings

21. The two PMUs will coordinate through joint coordination meetings and it will be convened by the MOLHR PMU. Meetings will be convened on a monthly basis for the first two years to ensure timely implementation and ongoing problem solving as required; subsequently, the frequency could be once in a quarter

- (i) The PMU in MOLHR will coordinate with PMU in MOE to consolidate reports, reconcile fund and process withdrawal applications for release of fund.
- (ii) The reporting to, and convening of PSC will be through the PMU in MOLHR.
- (iii) All audit reports and consolidated semiannual/ annual progress reports and critical issues will be discussed in the coordination meeting before reporting to the PSC, MOF and ADB.
- (iv) Ensure timely organization of audits and follow ups
- (v) Ensure timely coordination so that the 2 components of the project are implemented in a complementary manner

F. Design and Supervising Consultancy

22. MOLHR will recruit a design and supervising firm which will monitor and supervise the civil works in two sites—TTI Thimphu, TTI Samthang. The DSC will report to the MOLHR and regularly report on progress to the civil works. The PMU project manager and project engineer will regularly review progress and visit the civil works site from time to time. All payments to the DSC and to the civil works contractors will be handled by the PMU. All Civil works under MOLHR will be supervised and monitored on a daily basis by the Design & Supervising firm. Main functions as below:

- (i) Full time supervision of the construction works at TTI Thimphu and TTI Samthang including the construction of 3 numbers of trainees hostels at TTI Samthang.
- (ii) Approving contractor's work program, method statements, material sources, and safety plan.
- (iii) Approving and/or issuing working drawings, approving the setting out of the works, and giving instructions to the contractor.
- (iv) Inspecting materials and works to ensure compliance with specifications and giving immediate notice to the contractor in the event that such materials and works fail to comply with the specifications.
- (v) Certifying work volume and interim certificates for progress payments.
- (vi) Assisting the MOLHR representative with the maintenance of consolidated project accounts, and with preparation of financial statements and withdrawal applications for submission to ADB.
- (vii) Reviewing and recommending to the MOLHR variation orders, extensions of time, claims, and other matters that may come from each contractor.
- (viii) Preparing, at the completion of the contracts, a consolidated project completion report in a format provided by ADB.
- (ix) Providing the Employer with complete records, and inception, monthly, and completion reports

G. Various Committees and Focal Points Managed by PMU

23. **Grievance Redressal Mechanism and Complaints Resolution (GRM).** As per environment management plan in the EIA report GRM will be established to address feedback and complaints from stakeholders and the communities. At the PMU level the project engineer will be the environment focal point who will be responsible for ensuring that all environment safeguards are adhered to under the project. The GRM will be at two levels:

- (i) **GRM at the construction sites.** Principal (lead), site engineers from the supervising PIU and representative from the works executing contractors.
- (ii) **GRM at PMU level.** Project Manager (lead), Project Engineer, PIU focal officers and DSC representative (in case of MOE representative from SPBD).

a. Tender Committee

24. ADB procurement rules will be followed for all procurement of goods, works and services under the project. Accordingly, the thresholds will be higher and timeline will also be different from the normal government rules. The PMUs will ensure there is no delay in the procurement, objectivity is maintained and technical assurances are met. For opening of bid documents, the Ministry's existing opening tender committee will be used. The tender evaluation is the most

crucial stage in procurement process. Therefore, the PMU will identify committee members with the required technical expertise and if such capacity does not exist in the Ministry then provisions to invite from other agencies should be made. Once the evaluation documents are cleared by ADB, there is no need to convene award committee and PMUs can straight away award the work order/supply order.

b. Gender Focal Point

25. The gender focal officer in the PPDs will be the gender focal point for the project. The gender focal point will assist the PMUs in ensuring that the GAP (Gender Action Plan) is implemented, monitored and reporting is done as required by ADB.

c. Environment Focal Point

26. The project engineer under MOLHR PMU & the Supervising Engineer in SPBD for the MOE PMU will be the environment focal points. They will assist the PMU in ensuring that environment safeguards are adhered to in bidding documents, compliance by contractors, implementation of the risk mitigation plans and reporting as per ADB's requirements.

d. Other task force/special committees

27. Other technical task force to review standards, curriculum and rebranding of TVET could be formed as necessary with the directives of the PSC.