



Systemic Study for Refundable and Non- Revenue Deposits and Management thereof

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Background

Refundable Deposit Account is an account maintained by the Department of Public Accounts, Ministry of Finance with the Bank of Bhutan. This account is used to maintain all those monies received by the Government through line agencies in the form of security deposits, earnest money and other receipts while doing business with the government. All deposits in Refundable Deposit Account, as the name suggests, in principle, do not belong to the Government and are refundable as and when it is due to the lawful owner. The Non-Revenue Deposit Account, on the other hand, is another bank account maintained by the Department of Public Accounts with the bank of Bhutan to manage monies that are of non-revenue in nature.

While there is a system to look into the affairs and management of refundable and non-revenue monies that the Government receives on regular basis from the private parties, the way these accounts are managed as revealed through the on-going investigation in the Ministry of Health warrants immediate review as it provided huge opportunity for dealing people in the line agencies to roll-over and misuse these monies for their personal benefit. It is in this respect that a systemic study in this particular field is launched to explore and recommend corrective measures to plug in the existing loophole and consequently prevent corruption in the country.

Present way of doing things and the apparent systemic flaw

As it is today, the recoveries for the security deposit are usually deducted from the running bills of the supplying agency and as a system; all such recoveries should be deposited with the refundable deposit account maintained with the bank of Bhutan

along with the invoice. Although there is a set process as to how to go about remitting these deductions into refundable deposit account from the line agencies, *there is no timeframe as to when after the deduction of such monies should be remitted to a particular account.* This provides avenues for accountants to play with such deductions in the system.

In as far as the process of depositing such deduction is concerned; all such deposits are done by drawing cheques from respective Letter of Credit (LC), of course duly signed by the Drawing and Disbursing Officer. However, there is no set requirement as to how the cheque should be drawn and in whose favor. Currently, cheques are drawn in the name of bank, self and yourself for remitting those deductions. This has provided another level of opportunity to divert the cheques drawn for refundable deposit to some other accounts. As for the check and balance system from the Bank of Bhutan is concerned, the officials in bank only cared about the authenticity of the cheques and signature thereof. So long as the cheques are signed by an authorized person and had enough fund balance, it hardly mattered where the money is actually going for the officials in the bank.

As check and balance mechanism, section 1.3.7 through 1.3.12 and 1.3.13 of the Financial Rules and Regulation 2001 provides for how the Department of Public Accounts shall maintain the refundable and non-revenue deposit accounts, what it is and how the deposits into such account should be made and how the banks should report to the Department of Public Accounts on regular intervals. Section 1.3.13.2 d of FRR-2001, for example, specifically mandates the bank to submit separate consolidated statements of deposits received through the Non-revenue and refundable deposit account to DPA but it did not make any difference in terms of actually

examining the misuse, embezzlement and manipulation of system thereof even if the statement of accounts are submitted to DPA. This is because, the statement by itself, did not make any sense when looked at it in isolation. DPA has no mechanism to validate the consolidated fund balance in the refundable and non-revenue deposit accounts with the monthly accounts submitted by the line agencies. This systemic lapse further weakened the system of check and balance and hence boosted the confidence of crooks to manipulate the system for personal benefit.

The Royal Audit Authority in their regular annual auditing process, as of now, has invariably ignored to look into this aspect of government accounting and management system and this has further boosted the confidence of those unscrupulous people to act corruptly.

Systemic Recommendation

In view of the afore-mentioned systemic lapses, it is recommended that:

1. The Department of Public Accounts, Ministry of Finance as the manager of the Refundable and Non-revenue Deposit Accounts, in their on-going review of Financial Rules and Regulations 2001, explores the possibility of adding provision that mandates the line agencies to mandatorily deposit such recoveries (security deposit) within specific timeframe to the Refundable Deposit Account maintained with the bank of Bhutan. (*To be implemented in along with the review and finalization of FRR-2001*)

This arrangement should avoid unnecessary accumulation of recoveries made through numerous deductions in the line agency and subsequently tempt our accountants to use it for personal benefit by either rolling the accumulated amount or embezzlement.

2. That the Department of Public Accounts, Ministry of Finance as the manager of the refundable and non-revenue deposit account, makes it mandatory for all budgetary agencies to remit all those recoveries through the account payee cheques drawn in favor of the Refundable Deposit Account.

This arrangement should address the problem of deflecting or diverting the cheques, once drawn in favor of Refundable and Non-revenue deposit account, to other accounts by endorsing at the back of the cheque by phrases such as *“Please pay toor issue demand draft”* and so on. *(To be implemented immediately through the issue of notification to all budgetary bodies and also incorporate a provision in the FRR-2001)*

3. The Department of Public Accounts, as the manager of Refundable and Non-revenue Deposit Accounts, explores a mechanism to integrate information submitted by the Bank and budgetary agencies to authenticate and validate funds received into and paid thereof from Refundable and Non-revenue Deposit Accounts on regular basis.

This arrangement can not only enhance their cash flow management system but also provide check and balance mechanism in the management and operations

of refundable and non-revenue accounts through increased accountability. (*To be implemented alongside the on-going fine-tuning of PEMS*)

4. That Bank of Bhutan, as an agent bank for the Royal Government of Bhutan, exercises due diligence while clearing government cheques and report any discrepancies to the competent authority immediately. The Bank must make sure that the amount drawn to and from a particular government principal and sub-principal accounts are accordingly debited and credited.

This arrangement should detect and uncover any intentional and unscrupulous diversion of funds from government sub-principal accounts for personal benefit.

(*To be implemented immediately with the issuance of notification to all branch offices that deals with government refundable and non-revenue accounts*)

5. The Royal Audit Authority, as external and independent government auditor, considers inclusion of Refundable and Non-revenue deposits and management thereof as one of the risk areas and accordingly caters into the auditing requirements of such accounts in their regular auditing practice.

This arrangement can act as deterrence to those who might have taken into confidence that the Royal Audit Authority does not look into the affairs of Refundable and Non-Revenue deposits and management thereof and go about manipulating the system for their personal benefit. It can further strengthen the scope and management of Government accounting system. (*To be implemented immediately with official instruction to all divisions of the RAA*)

