

Audited Project Financial Statements

Project Number: 47284-002
Grant Number: 0492
Period covered: 1 July 2019 to 30 June 2020

Bhutan: South Asia Subregional Economic Cooperation Transport, Trade Facilitation and Logistics Project

Prepared by Department of Revenue and Customs

For the Asian Development Bank
Date accepted by ADB: 26 January 2021

The audited project financial statements are documents owned by the borrower. The views expressed herein do not necessarily represent those of ADB's Board of Directors, Management, or staff. These documents are made publicly available in accordance with ADB's Access to Information Policy and as agreed between ADB and the borrower's implementing agency.



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Reporting on Economy, Efficiency & Effectiveness in the use of Public Resources

AIN: 16974

**FINANCIAL AUDIT REPORT OF THE ADB FUNDED
“SASEC TRANSPORT, TRADE FACILITATIONS AND
LOGISTIC PROJECT (GRANT NO.0492)” IMPLEMENTED
BY THE DEPARTMENT OF REVENUE & CUSTOMS,
MINISTRY OF FINANCE, THIMPHU**

PERIOD: 1 JULY 2019 TO 30 JUNE 2020

OCTOBER 2020

*‘Every individual must strive to be principled. And individuals in positions of responsibility must even strive harder’
- His Majesty the King Jigme Khesar Namgyel Wangchuck*

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ROYAL AUDIT AUTHORITY

Bhutan Integrity House

Reporting on Economy, Efficiency & Effectiveness in the use of Public Resources



RAA/GGD/DRC(SASEC)/05/2020-21/1906

Dated:21/10/2020

The Director General
Department of Macroeconomic Affairs
Ministry of Finance
Tashichho Dzong, Thimphu

Subject: Financial Audit Report of ADB funded “SASEC Transport, Trade Facilitation and logistic Project (Grant No.0492)”, implemented by the Department of Revenue & Customs, Ministry of Finance, Thimphu for the period 1 July 2019 to 30 June 2020.

Sir,

Enclosed herewith please find three sets of the audited **financial statements and auditors’ report thereon** in respect of the **ADB funded “SASEC Transport, Trade Facilitation and logistic Project (Grant No.0492)”** for the financial year ended 30 June 2020. The audit was conducted as required under the Audit Act of Bhutan 2018, and in accordance with International Standards of Supreme Audit Institutions (ISSAIs).

Two sets of the audited financial statements and auditors’ report may please be forwarded to the Asian Development Bank Headquarters, Manila, Philippines.

Auditor’s Report on the Financial Statements

As may be noted from the auditors’ report, the financial statements are prepared by the Project, in all material respects, in accordance with Financial Rules and Regulations 2016 and Project Agreement. Accordingly, the RAA has issued unmodified (unqualified) opinion on the financial statements.

The Royal Audit Authority acknowledges the kind co-operation and assistance extended to the audit team by the officials of the Project, which facilitated the completion of the audit.

Yours sincerely,

(Chhoden)
Asstt. Auditor General, GGD

Copy to:

1. The Hon’ble Secretary, Ministry of Finance, Tashichho Dzong, Thimphu
2. The Director General, Department of Revenue & Custom, Thimphu for necessary actions
3. The AAG, Follow-Up & Clearance Division, Royal Audit Authority, Thimphu

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TITLE SHEET

1.	Title	:	Financial Audit Report of ADB funded “SASEC Transport, Trade, facilitation and logistic Project (Grant No. 0492)”, Department of Revenue & Customs.
2.	AIN	:	16974
3.	Head of the Agency	:	Wangchuk Thayey, Director General, DRC EID No. 9401082
4.	Project Manager	:	Selden, Joint Collector, eCMS Project, DRC EID No. 200501087
5.	Drawing and Disbursing Officer	:	1. Tshering Dorji, Chief Finance Officer, MoF EID No. 9711016 01/07/2019 to 30/6/2020 2. Ugyen Tshewang, Dy. Chief Finance Officer, MoF EID No. 9410057 01/07/2019 to 30/6/2020
6.	Finance Personnel	:	1. Tashi Chezom, Accounts Asstt.-IV, MoF EID No: 20130802289 2. Pemba Dukpa, Accounts Asstt.-II, MoF EID No. 9206012
7.	Period Audited	:	01/07/2019 to 30/06/2020
8.	Schedule of Audit	:	Start date:14/9/2020 End date :18/9/2020
9.	Composition of Teams	:	<u>Team Leader:</u> Karma Wangchuk, Dy.Chief Auditor EID No.9209042 <u>Team Members:</u> 1. Subana Pradhan, Audit Officer EID No. EID No.201201160 2. Rinchen Gyeltshen, Audit Officer EID No. EID No.20150104976
10.	Supervising Officer	:	Chhoden. AAG EID No. EID No.200501091
11.	Overall Supervising Officer	:	Tashi Tobgay, DAG EID No. 9811012
12.	Engagement Letter No	:	RAA/GGD/MoF(RRCO/02/20-221/1649 dated 14/9/20
13.	Focal Person	:	Karma Wangchuk
14.	Date of Exit Meeting	:	Not held

Glossary of Abbreviations & Acronyms

AAG	:	Asstt. Auditor General
ADB	:	Asian Development Bank
AFD	:	Administration and Finance Division
AIN	:	Audit Information Number
AR	:	Audit Report
GGD	:	General Governance Division
EID No.	:	Employee Identification Number
FY	:	Financial Year
MoF	:	Ministry of Finance
RAA	:	Royal Audit Authority
RGoB	:	Royal Government of Bhutan
RMA	:	Royal Monetary Authority
SASEC	:	South Asia Sub-regional Economic Co-operation

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**AUDITORS' REPORT ON THE
FINANCIAL STATEMENTS**



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AUDITORS' REPORT ON THE FINANCIAL STATEMENTS OF THE ADB FUNDED "SASEC TRANSPORT, TRADE FACILITATION AND LOGISTIC PROJECT (GRANT NO.0492)" IMPLEMENTED BY THE DEPARTMENT OF REVENUE & CUSTOMS, MINISTRY OF FINANCE, THIMPHU FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020

Opinion

We have audited the accompanying financial statements of the ADB funded "SASEC Transport, Trade Facilitation and logistic Project (Grant No-0492)", of Department of Revenue & Custom (FIC-4517-PLC Account No.202.01/2013/50001012) implemented by Department of Revenue & Customs, MoF, Thimphu which comprise the Receipts and Payments Statement and schedules forming part of financial statements for the financial year ended 30 June 2020.

In our opinion, the financial statements are prepared, in all material respects, in accordance with the Financial Rules and Regulations 2016 and Project Agreement.

Basis for Opinion

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of Financial Statement* section of our report. We are independent of the Project in accordance with RAA's Oath of Good Conduct, Ethics and Secrecy of Auditors, and we have fulfilled our responsibilities in accordance with the requirements outlined in this Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Basis of Accounting

We draw attention to Note 1 to the special purpose project financial statements, which describes the basis of accounting. The special purpose project financial statements are prepared to assist the project's management to comply with the financial reporting provisions of the Project Agreement, which requires the special purpose project financial statements to comply with the Standard Conditions of the Grant Agreement. As a result, the special purpose project financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for preparation of the financial statements in accordance with the Financial Rules and Regulations 2016 and Project Agreement, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. Those charged with governance are responsible for overseeing the Project's financial reporting process.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of audit in accordance with ISSAIs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the project's internal control.

We communicate with the management, among others, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during the audit.

Other Requirements

We report that;

- The flow of funds from the Imprest Account and balance thereon could be fairly relied upon. The control mechanism put in place for the operation of the account could also be fairly relied upon;
- The Statement of Expenditure, Statement of Grant and Reconciliation Statement submitted could be fairly relied upon;
- All the expenditure reported and claimed are eligible for financing under the Grant No.5-0492;
- The funds provided under the Grant No. 0492 have been utilised for the purposes for which they were provided;
- The FOREX conversation rate for fund transfer is recognised on the basis of exchange rate prevailing on the date of transfer of fund to Department of Public Accounts (DPA) from the Imprest Account maintained with Royal Monetary Authority (RMA) of Bhutan.

- The expenditure incurred in local currency have been converted to USD at the average exchange rate obtained by dividing the total fund transferred in local currency from the Imprest Account by the total equivalent USD debited in the Imprest Account maintained by the Royal Monetary Authority;
- The Direct Payment made by the ADB in Foreign Currency has been converted into local currency at the exchange rate prevalent on the date of transaction by the ADB and
- The overall reconciled fund balance of the Project (ADB) as at 30 June 2020 stand at Nu. 28,502,490.94 (Nu. 28,496,589.60+Nu.5,901.34) which is represented by USD 380,208.00 with RMA equivalent to local currency Nu. 28,496,589.60 (Exchange rate 1 USD = Nu.74.95 (Refer Exhibit 11 part-1) and local currency of Nu. 5,901.34 with DPA as on 30 June 2020 (Refer statement of ADB fund balance(DPA) Exhibit- 11 part II).



(Chhoden)
Assistant Auditor General

Date: 21/10/2020

ENCLOSURES

ANNEXURE - A: PROFILE

Project Name	South Asia Subregional Economic Cooperation Transport, Trade Facilitation and Logistics Project SASEC TTFLP) for Development of electronic Customs Management System (eCMS).
Funding Agency	Asian Development Bank
Grant Period	29.09.2016 – 30.06.2023
Grant No	0492-BHU
Grant Amount	3,840,000.00
Project Agreement	29th September 2016
Executing Agency (EA)	Ministry of Finance, Department of Revenue & Customs, eCMS Project office.
Contract/Ref No	DRC/CED/PMU-eCMS/1312 & DRC/CED/PMU-eCMS/1313
Total Contract Amount (USD)	\$116,910.00
Summary	<p>Since 2000 Bhutan Customs Administration (BCA) under the Department of Revenue & Customs (DRC) Ministry of Finance, Royal Government of Bhutan has been using a standalone Bhutan Automated Customs System (BACS). The Major deficiency of BACS is its inability to exchange the information on real time, which results into data inconsistency and delay in the information flow. Though BACS is still serving the basic needs of the Customs for almost two decades surpassing its lifespan.as of today it poses high shutdown risks at any time, which will have serious consequences as BACS is the only available system in the country catering to the needs of international cross border trade. Thus, it is of the highest priority of the DRC to urgently develop an automated & dynamic electronic customs management system.</p> <p>Further, Bhutan became the 96th contracting party to the Revised Kyoto Convention (RKC) in September 2014. The RKC is an internationally recognized convention and blueprint for modern and efficient customs procedures in the 21st century developed by the WCO. Subsequently, as to become compliant to the RKC standards requirements, the DRC enacted Customs Act of Bhutan (CAB) 2017 and Customs rules & regulations 2017. Therefore, to cater the new trade facilitation measures mandated to be adopted under new legislation, it has become important to develop a new dynamic customs system. This will also largely complement to the various infrastructure invested by government and in particular mini dry port in phuentsholing and other trade hubs of the country in facilitating the trade.</p>

	<p>Considering the above, the Department has decided to develop customized system (eCMS). To kick-start the project, ADB has provided assistance to develop comprehensive Functional & software requirement specification (FRS & SRS) with detailed cost, schedules, and phased development plans. And subsequently, two international consultants have been selected through the consultants management system with support and technical advice from the ADB.</p> <p>The Project Constitutes of three packages as per the following allocation.</p> <p>Approved Allocation Grant Proceeds category wise.</p> <table border="1" data-bbox="635 589 1422 869"> <thead> <tr> <th data-bbox="635 589 778 656">Number</th> <th data-bbox="778 589 1422 656">Category</th> </tr> </thead> <tbody> <tr> <td data-bbox="635 656 778 723">1.</td> <td data-bbox="778 656 1422 723">Consulting Services</td> </tr> <tr> <td data-bbox="635 723 778 790">2.</td> <td data-bbox="778 723 1422 790">Office Equipment</td> </tr> <tr> <td data-bbox="635 790 778 869">3.</td> <td data-bbox="778 790 1422 869">System Hardware & software</td> </tr> </tbody> </table>	Number	Category	1.	Consulting Services	2.	Office Equipment	3.	System Hardware & software
Number	Category								
1.	Consulting Services								
2.	Office Equipment								
3.	System Hardware & software								
<p>Partner Agencies</p>	<p>Asian Development Bank (ADB), Department of Revenue & Customs (DRC), MoF, Department of Macroeconomics, (DMEA), MoF, Bhutan Resident Mission, (BHRM), ADB, Thimphu, Individual consultant (Mr. Ian Michael Thomas, Kathmandu (based), Mr. Ian Michael Thomas, Mr. Ian Michael Hogg (United Kingdom).</p>								

The Development of electronic Customs Management System (eCMS) envisioned as follows.

Outcome I: Functional Requirement Specification and Software Requirement Specification.

Outcome II: Procurement of hardware and software for the application.

Outcome III: National Roll out of the core functions of eCMS.

Outcome IV: National Roll out of the whole eCMS system.
