

# Audited Project Financial Statements

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Project Number: 49441-001

Grant Number: 0475

Period covered: 13 April to 11 October 2016

## MON: *Dzud* Disaster Response Project

Prepared by Ministry of Finance

For the Asian Development Bank

Date accepted by ADB: 14 February 2018

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**FINANCIAL STATEMENTS OF “DZUD DISASTER  
RESPONSE PROJECT (GO475-MON)” FINANCED BY  
THE ASIAN DEVELOPMENT BANK GRANT FOR THE  
YEAR ENDED 2016**

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**Audit report**

Appendix 1: Content  
Appendix 2: Audit Certificate  
Appendix 3: Audited financial statements  
Appendix 4: Letter of management

## Content

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1. Legal justification of auditing
2. Legal environment of the organization
3. Mission of the organization and its activities
4. Audit criteria, audit methodology, procedures implemented, control tests and substantive procedures, and its outcomes
5. Internal control
6. Budget income and expenditure performance, and its notes
7. Transparency glass account information
8. Identified significant risks and Its consequences
9. Basis for choosing materiality level
10. Description of major and unusual transactions (if applicable)
11. The main deficiencies identified by the audit and its resolutions
12. Notes on un-adjusted errors
13. Other important matters
14. Notes for next audit
15. Summary of identified misstatements
16. Implementation of the prior year recommendations
17. Auditor's opinion
18. Unqualified opinion
19. Notes to the financial statement

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**TO:** B. DORJSEMBED  
DIRECTOR GENERAL  
DEVELOPMENT FINANCING DEPARTMENT  
MINISTRY OF FINANCE

**Certificate of Audit**

We carried out an audit to the annual consolidated financial condition, statement of financial performance, cash flow, change of properties, utilization of budget and other relevant interpretation and highlights of financial statements which was terminated dated on 31<sup>st</sup> of December, 2016 of the “Dzud Disaster Response Project (GO475-MON)” financed by the Asian Development Bank technical assistance according to the law of State Audit, at 15.1.1 in Article 15; at 8.9.2 in Article 8 of the law of Budgetary.

**Report of rights and obligations**

The management of the “Dzud Disaster Response Project (GO475-MON)” financed by the Asian Development Bank technical assistance shall responsible to prepare and report the financial statement in compliance with the Law of Accountancy, International Accounting Standard (IAS), the guidance and regulation which were approved by the Minister of Finance.

The state audit entities has the duty to give the auditor’s judgement and opinion whether the annual financial statements of 2016 of the “Dzud Disaster Response Project (GO475-MON)” financed by the Asian Development Bank technical assistance, shown accurate and objective or not.

**Justification of the Judgement**

We fulfilled the audit in compliance with the International Standard of Audit and in accordance with the regulation of Audit of Financial Statement which was approved by the General Auditor of Mongolia. The claim of these standard and regulations are required to prearrange and carry out the audit by the aim of make up for the legitimate guarantee regarding whether the financial statement to be indicated apart from inaccurate and improperly.

Balance in financial statement, sum of transaction, revelation and disclosure, the policy of accounting pursuant in this entity, bookkeeping, software, internal controlling system and the

confirmation and supporting items of these were audited in the basis of experiments and evaluated the major estimation were made by the management personnel and general highlight of financial statement by the Auditing.

We hope that the audit which we carried out, is sufficient evidence to give a judgement to the financial statement document whether its accuracy.

### **Non offensive Judgement**

The consolidated financial position, statement of financial performance, cash flow, change of properties, utilization of budget dated on 31 December, 2016, of the “Dzud Disaster Response Project (GO475-MON)” financed by the Asian Development Bank technical assistance, were indicated with accuracy in compliance with the Law of Accountancy, and the International Standard of Accounting of State Sector (ISASS) and according to the policy, method and regulation approved by the Minister of Finance.

**DIRECTOR, FINANCIAL AUDIT DEPARTMENT**  
**HEAD AUDITOR** *(signed with seal)* **TS. NARANCHIMEG**

## AUDITOR'S OPINION

**TO: B. DORJSEMBED DIRECTOR GENERAL DEVELOPMENT  
FINANCING DEPARTMENT MINISTRY OF FINANCE**

### *Mongolia Dzud Disaster Response Project Grant № 0475 MON (EF)*

We have audited the accompanying financial statements of Grant № 0475 MON (EF) Mongolia Dzud Disaster Response Project, which comprise the balance sheet as at December 31, 2016, and the statement of project sources and uses of funds, statement of expenditure (Grant withdrawals) and imprest account statement for the year then ended. Management of the project is responsible for the preparation of these financial statements and our responsibility is to express an opinion thereon based on our audit.

We conducted our audit in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall statement presentation. We believe our audit provides a reasonable basis for our opinion.

Management of the project have prepared these financial statements in accordance with International Public Sector Accounting Standards on cash basis wherein revenues are recognized when cash is received and expenses are recognized when paid.

In our opinion, the financial statement and the report of project sources and uses of funds have been prepared in accordance with International Public Sector Accounting Standards issued by the Public Sector Committee of the International Federation of Accountants; cash receipt and cash expenditure of the Mongolia Dzud Disaster Response Project for the year ended December 31, 2016 present fairly, in all material respect; and spending incurred for the intended purpose as stated in the Grant Agreement 0475 MON (EF).

*The auditor's opinion is an integral part of audit certificate.*

## **AUDITOR'S OPINION**

**TO: B. DORJSEMBED DIRECTOR GENERAL DEVELOPMENT  
FINANCING DEPARTMENT MINISTRY OF FINANCE**

### *Mongolia Dzud Disaster Response Project Grant № 0475 MON (EF)*

We have audited the statement of project sources and uses of funds for the year ended December 31, 2016 of the Grant № 0475 MON (EF) Mongolia Dzud Disaster Response Project.

We conducted our audit in accordance with generally accepted auditing standards, on a test basis examined evidence documents that support the amounts and disclosures in the statement of sources and uses of fund. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the internal controls and procedures involved in preparation of the statement of sources and uses of funds can be relied upon, and the applications for loan withdrawals sufficiently support it.

*The auditor's opinion is an integral part of audit certificate.*

## **AUDITOR'S OPINION**

**TO:** B. DORJSEMBED DIRECTOR GENERAL DEVELOPMENT  
FINANCING DEPARTMENT MINISTRY OF FINANCE

*Mongolia Dzud Disaster Response Project Grant № 0475 MON (EF)*

We have audited the statement of expenditures (Grant withdrawals) for the year ended December 31, 2016 of the Grant № 0475 MON (EF) Mongolia Dzud Disaster Response Project.

We conducted our audit in accordance with generally accepted auditing standards, on a test basis examined evidence documents that support the amounts and disclosures in the statement of expenditures. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the statement of expenditures (Loan and grant withdrawals) is prepared in accordance with the ADB Loan Disbursement Handbook and receipts and expenditures are supported by the primary documents, classified in accordance with expense category as stated in the loan agreement and present fairly.

*The auditor's opinion is an integral part of audit certificate.*



## **AUDITOR'S OPINION**

**TO:** B. DORJSEMBED DIRECTOR GENERAL DEVELOPMENT  
FINANCING DEPARTMENT MINISTRY OF FINANCE

*Mongolia Dzud Disaster Response Project Grant № 0475 MON (EF)*

We have audited the Imprest Account Statement for the year ended December 31, 2016 of Grant № 0475 MON (EF) Mongolia Dzud Disaster Response Project, which was prepared within the Grant agreement Grant № 0475 MON (EF) framework to support withdrawals.

We conducted our audit in accordance with generally accepted auditing standards, on a test basis examined evidence documents that support the amounts and disclosures in the Imprest Account Statement. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the imprest account statement was prepared in accordance with the ADB Loan Disbursement Handbook, cash replenishment and liquidation of the imprest account present fairly.

*The auditor's opinion is an integral part of audit certificate*

## **1. Legal justification of auditing:**

According to article 8.9.1 of the provision 8 of the Budget law; article 18.1 and 18.2 of the provision 18 and article 15.1.1 of the provision 15 of the State Audit law; and the section 25.5 of the decree No. 196 of the Minister of Finance issued in 2015 the National Audit Office within its full rights has carried out audit of the annual financial statements of “Dzud Disaster Response Project (GO475-MON)” financed by the Asian Development Bank grant for the year ended 31 December 2016.

Audit has been conducted in accordance with the audit plan and programs that were drawn up during the audit planning stage according to Budget law, State Audit law, Accounting law and other laws and regulations, and principles of International Standards on Auditing.

The purpose of the audit is to express an opinion whether the annual financial statements of the “Dzud Disaster Response Project (GO475-MON)” financed by the Asian Development Bank grant for the year ended 31 December 2016 give a true and fair view in accordance with Accounting law, International Public Sector Accounting Standards /IPSAS/ and the accounting policies, guidelines and procedures of state budget organizations that were issued in conformity with those standards.

The project coordinator is responsible for the preparation and for true and fair presentation of those financial statements in accordance with IPSAS, guidelines and procedures, accounting policies issued by the Minister of Finance in conformity with those standards and using approved accounting software.

The State audit organizations is responsible for expressing an opinion on those financial statements whether the financial statements are free from material misstatement, give a true and fair view in accordance with Accounting law, IPSAS and the generally recognized accounting principles.

According to the approved audit plan of financial statements of “Dzud Disaster Response Project (GO475-MON)” financed by Asian Development Bank grant for the year ended 2016 the audit was conducted in three working days from 18 April 2017 to 21 April 2017 by D. Bayaraa, a contracted auditor under supervision of Ts.Naranchimeg, the Director of Financial Audit Department and Head Auditor and Ya. Sambuunjam, Audit manager. /ТАБ-CTA-A-9/

An official request for audit of financial statements of “Dzud Disaster Response Project” financed by the Asian Development Bank grant for the year ended 2016 was received at National Audit Office in the official letter No.10/470 issued by the acting interim State Secretary of the Ministry of Finance dated on 25 January 2017 however the audit was delayed due to reasons such as the project unit was not established and the financial statements have not been prepared.

Nonetheless, the head of the Development financing department of the Ministry of Finance sent a request for audit on the financial statements of the project in the official letter No.10 /2153 dated on 17 April 2017.

The Financial Audit department shall conduct the audit within the period stated in the Budget law and in accordance with the audit plan and programs, and submit the audit report to the management of the project.

## **2. Legal environment of the organization:**

Management of “Dzud Disaster Response Project (GO475-MON)” financed by the Asian Development Bank grant has carried out its activities in accordance with the agreement entered into between the Government of Mongolia and Asian Development Bank, "State and Local Property law", "Accounting law" and other laws, Government orders, rules and regulations issued by the sector minister and other common rules and procedures. However, the project has not complied with decree No.196 issued by the Minister of Finance in 2015.

With respect to changes or amendments in laws and regulation that governing the project financial activities and changes to the procedures and instructions in conformity with laws are as follows:

- The State Ikh Khural has approved the revised Accounting Law in June 2015 and it was stated that the revised law shall be effective from 1 January 2016. In connection with the change in the Accounting law related changes were altered in other relevant laws.

## **3. Mission of the organization and its activities:**

### **3.1 Mission**

**Project objective:** The project aims to address the most urgent survival a livelihood needs of people affected by the harsh *dzud* winter weather conditions that have been prevalent in numerous districts across the country since early December 2015.

### **3.2 Brief note of activities**

**Management and structure of the organization:** The project unit of the Grant Agreement number 0475-MON entered into between the Government of Mongolia and Asian Development Bank on 11 April 2016 for implementing the “Mongolia Dzud Disaster Response Project” has not been established in accordance with the agreement. Nevertheless, a working group was established according to decree No.163 of the Minister of Finance dated on 29 April 2016 to implement and monitor the project activities.

The working group consists of 6 staff including:

Working team leader -1

Members -3

Secretary -2

### Project activities:

According to the guideline of the working group that was established by the Decree No.163 of the Minister of Finance dated on 29 April 2016, the following tasks were noted to be carried out:

1. Use the project funds in accordance with the Grant Agreement, Memorandum of Understanding signed with ADB and disburse according for intended purpose of special fund;
2. According to article 34.1.5 of the Purchase of Goods and Works by State and Local Funds law immediately arrange the purchase contract of emergency ambulance vehicles;
3. Purchase and distribute emergency ambulance vehicles through the Ministry of Health and Sports;
4. Follow UN principles for granting cash aid,
5. In the provinces that affected by *dzud* identify the households that have livestock from 100 to 200 and herders that have lost the most of the livestock and provide aids;
6. Provide cash grants to households through the National Emergency Management Agency /NEMA/; and
7. Ensure project implementation and monitor activities.

Within the scope of tasks stated in the working group guidelines, and based on the certain criteria the NEMA has selected 2473 households from 8 provinces that were severely affected by *dzud* disaster to provide cash grant donations and submitted its relevant documents to the Ministry of Finance in the official letter No.1/1803 dated on 22 August 22 2016.

In order to distribute the above mentioned one-time cash grants through a state bank, the Ministry of Finance entered into a "Cooperation Agreement" with the State Bank and cash grants were delivered through bank transfer to private accounts of the citizens.

At the meeting of the project working group, it was resolved that the amount of the cash grant to each citizen shall be double of the minimum salary level of 192.0 thousand togrog or 384.0 thousand togrog will be granted. Therefore, in total 946.9 thousand togrog were transferred to private accounts of 2466 citizens.

Also, as stated in the guideline of the working group, an open tender No.CЯ20160513 for "Supply of ambulance vehicles" was announced on 15 May 2016 by the Ministry of Finance. However there was not any tenders received that fulfilled all criteria and besides the tender announcement period expired on 30 July 2016. Therefore the tender became invalid.

As it became impossible to re-announce the tender within the project implementation period, in consultation with ADB, it was agreed to use the remaining balance for reimbursement of eligible expenditures incurred during the project implementation period as stipulated in the grant agreement to provide emergency assistance to the *dzud* affected people.

Accordingly, the costs incurred by the Government Resolution No.480 and No.481 dated on 14<sup>th</sup> December 2015, Resolution No.55 issued in January 2016 and Resolution No.481 issued in February 2016 for dzud disaster response activities, nine categories of expenditure for the total amount of 3,132.2 million togrog or 1,557.6 thousand US dollars were reimbursed.

In the above mentioned resolutions, it was stated that gers, hay and fodder, vehicles, equipment, fuel, tools and instruments, medical instruments shall be supplied from the state reserve and by the amount of the expenditure to reimburse them back in accordance with the relevant laws. Therefore with respect to goods, there was not any selection process carried out, but transportation of hay and fodder and removal of carcass services were directly contracted.

The governing legal documents of the project were reviewed and the project has complied with Accounting law, Minister of Finance's decree No. 196 issued in 2015, State and Local Property law, Purchase of Goods and Works by State and Local Funds law and other laws and regulations, rules and procedures.

#### **4. Audit criteria, audit methodology, procedures implemented, control tests and substantive procedures, and its outcomes:**

In audit IPSAS, guidelines and procedures approved by the Minister of Finance in conformity with those standards, Accounting law and other laws, resolutions, decrees, guidelines and procedures have been used as criteria.

In order to express the opinion on the financial statements of "Dzud Disaster Response Project" financed by the Asian Development Bank grant for the year ended 2016 and to obtain sufficient and appropriate evidence to provide a basis for our opinion that the financial statements prepared by the project unit are free from material misstatement inherent and control risks of accounts were identified, and internal controls implemented by the project were evaluated and documented. / TA5-CTA-A-5 /

Accounting policies and principles used in the preparation of financial statements were assessed, the substantive testing and procedures were implemented on accounts with a large number of transactions using sampling method. /TA5-CTA-B-3/

On review of the computer system used for financial activities of "Dzud Disaster Response Project" financed by the Asian Development Bank grant enquiry technique was used and it was confirmed that the project does not use an accounting software for maintaining its accounting records. In such case when the financial statements are not produced by the accounting software, there is a risk of omission and casting. /TA5-CTA-B-2/

For the preparation of the financial statement the of "Dzud Disaster Response Project" financed by the Asian Development Bank grant it uses the basic methods and the financial statements have been prepared accordingly.

#### **5. Internal control:**

During the audit in order to assess the internal control of the project the internal control system structure was reviewed, activities of control, monitoring and evaluation expert were reviewed, and also control exercised by the management, remedy actions taken to eliminate the deficiencies were reviewed.

In other words, in order to obtain reasonable assurance that financial statements are free from material misstatement internal controls were re-evaluated as required. Its purpose is to identify and evaluate the key controls that worked during the year preventing from occurrence of the material misstatement.

There is no internal control officer who is in charge of financial operations. The working group implements general monitoring of project activities.

The information of the project financing and expenditure was transparent. Also the intended purpose of the cash disbursements were informed to the Asian Development Bank and based on the mutual agreement financing and expenditure transactions were incurred. In other words, the project funds were expensed after authorization of 2 parties based on the working group decisions.

#### **6. Budget income and expenditure performance, and its notes:**

The project has received financing of 2.0 million US dollars /or 4,020.0 million togrog/ from the Asian Development Bank. Also interest income earned on imprest and sub-accounts were: a/ 5.3 thousand US dollar or 10.5 million togrog on imprest account No. 16000038545, b/ 59.6 million togrog or 28.1 thousand US dollar on sub-accounts No. 102100553316 and c/ 0.1 million togrog or 0.5 thousand US dollar on sub account No. 1060000044588, which are totaled to 70.3 million togrog or 33.4 thousand US dollar.

From the special and the sub accounts of the project cash expensed for cash aid for families affected by dzud was 946.9 million togrog or 470.9 thousand US dollar, translation cost 11.0 million togrog or 4.8 thousand US dollar, advertising cost 0.1 million togrog or 0.084 thousand US dollar, bank charge 0.024 million togrog or 0.019 thousand US dollar. On the basis of consensus with ADB as stated in the Agreement the remaining fund for the total amount of 3,132.3 million togrog or 1,557.6 thousand US dollar was used to reimburse the expenditures incurred by the Mongolian Government to provide emergency support to the people affected by the dzud during the project implementation period. It consisted of the following expenditures: purchase of vehicles 1,018.9 million togrog or 506.7 thousand US dollar, purchase of gers 98.9 million togrog or 49.2 thousand US dollar, removal of carcass and search for missing people 1,059.7 million togrog or 527.0 thousand US dollar, transportation expenses of hay and fodder 496.8 million togrog or 247.1 thousand US dollar, hay and fodder distribution expenses to herders 249.1 million togrog or 123.9 thousand US dollar, fuel expenses 73.5 million togrog or 36.6 thousand US dollar, disaster prevention fund 15.0 million togrog or 7.5 thousand US dollar, herder families healthcare 75.0 million togrog or 37.3 thousand US dollar, purchase of search and rescue equipment 45.0 million togrog or 22.4 thousand US dollar.

The balance of sub account for 0.024 million togrog or 0.01 thousand US dollar was refunded to ADB.

## **7. Transparency glass account information**

According to the "Procedure on setting up content and common standards of information in the Glass Accounts" issued on 11 January 2016 in conformity with article 5.4 of Budget Transparency or Glass Account law, all project information were reported on time in the Glass Account Information System to be uploaded in the Ministry of Finance website. It includes the following:

1. Glass account information budget/performance section:
  - A. Report all income and expense transactions except salaries cost with amount of above five million togrog on timely basis.
2. Glass account investment, tender and purchase section:
  - B. Name of purchase of goods, work and services cost over five million togrog, financing amount, supplier name and address information were downloaded from the site for verification and checked whether the information was uploaded on time. The information was presented transparently.

## **8. Identified significant risks and its consequences:**

According to audit plan 4 audit risks were identified and within the assertions on each account three detailed procedures were performed.

Identifying consequences: there was no project implementation unit, the project director, coordinator and financial officer were not delegated. On the remittance document for disbursement from the imprest and subaccounts, the head of the Development financing, debt management division of the Ministry of Finance was signing as the 1<sup>st</sup> signatory and there were no 2<sup>nd</sup> signatory. The project issues were resolved at the working group meetings, however, there were no resolutions filed in the meeting minutes. That might lead to a risk of overuse of fund utilization and non-compliance of laws and regulations.

## **9. Basis for choosing materiality level**

At the planning stage in determining the materiality level, we estimated the materiality level by 0.1% of the total revenue of financing or 4.0 million togrog as an appropriate level.

At the completion level the materiality level was re-estimated as 0.1% of total expenditure /after deduction of the state budget/ of actual performance or at 0.95 million togrog. In other words, it is considered to be appropriate to estimate the materiality level from actual project expenditure.

## **10. Description of major and unusual transactions (if applicable):**

In assuring that the financial statements of "Dzud Disaster Response Project" financed by the Asian Development Bank grant for the year ended 2016, were free from material misstatement, the accounting policies and procedures that used for the preparation of those financial statements were evaluated, during audit procedures and substantive tests were performed using sampling on transactions of financing received from the Asian Development Bank and its expenditure, on balances of cash and other accounts, and on calculation that have impact on the financial statements./ТАБ-СТА-В-3/

Those substantive tests represent the 100% of revenue or financing received from the Asian Development Bank, 100% of cash income and disbursement of bank accounts' transactions, and around 2% of cash transactions of the grant distributed to herders respectively.

#### **11. The main deficiencies identified by the audit and its resolutions:**

The main deficiencies that were noted during the audit of the financial statements are summarized below. The following errors occurred during the audit:

1. The fact that on the remittance document for disbursement from the imprest and sub-accounts the Head of the Debt Management Division, Department of Development Financing, Ministry of Finance signed as the 1<sup>st</sup> signatory. There were no 2<sup>nd</sup> signatory. That is in breach of:

a/ section 20.4 of the procedure, approved by the Decree No.196 of the Minister of Finance issued in 2015. It stipulated that "On the bank remittance document /BRD/ for disbursement of cash from the imprest account, the 1<sup>st</sup> signatory shall be an authorized official from the Ministry of Finance and the 2<sup>nd</sup> signatory shall be the direct governor of the project implementing organization or the Director of the project, as authorized by":

b/ The first section for disbursement of funds by giving the right to sign of the decree No.89 of the Minister of Finance issued on 15 April 2015 "Project transactions financed by foreign loans and grant aid ... for transactions below 150.0 million togrog the 1<sup>st</sup> signatory shall be the head of Financial Development, Debt Management Division".

2. The fact that the project unit was not established, project director and coordinator, financial officer was not delegated is in breach of relevant section of decree No.196 of the Minister of Finance issued in 2015.

#### **Resolutions:**

1/ As the Ministry of Finance, the Executing Agency of the project or the higher governing organization, it should comply with the decree No.196 of the Minister issued in 2015;

2/ In the first section of the Decree No.89 of the Minister of Finance issued in 2015 for disbursement of funds by authorizing the right to sign, the name of the person in that position was stated. As that person was changed, the name in that decree needs to be replaced. Those issues were noted in the management letter.

#### **12. Notes on un-adjusted errors:**

There were no un-adjusted errors in the annual financial statement of the project for the year ended 2016.

#### **13. Other important matters:**



There were no other important matters noted with respect to the project. However, as the Ministry of Finance is the highest governing organization for some of the projects implemented, the State Secretary should take necessary actions in order to comply with the laws and regulation that are relevant to the project implementation.

#### **14. Notes for next audit:**

There were no issued noted for next audit.

#### **15. Summary of identified misstatements**

The issues noted on the financial statements have qualitative character rather than quantitative. For example: there were no project implementing unit established, project director, coordinator and financial officer were not delegated which are in breach of decree No.196 of the Minister of Finance issued in 2015.

#### **16. Implementation of the prior year recommendations:**

“Dzud Disaster Response Project” was commenced and completed in the current year.

#### **17. Auditor’s opinion**

From the result of the audit of the financial statements of “Dzud Emergency Response Project” financed by the Asian Development Bank grant for the year ended 2016, it was noted that the project has used the grant financing for its intended purpose as stated.

Audited financial statements and management letter are attached.

#### **18. Unqualified opinion**

In our opinion, the accompanying financial statements of “Dzud Emergency Response Project”, which comprise the statement of financial position, performance statement, statement of cash flows and statement of changes in equity have been prepared in accordance with International Public Sector Accounting Standards (IPSAS), guidelines and procedures approved by the Minister of Finance in conformity with those standards.

Audited financial statements and the management letter are attached.

#### **19. Notes to the financial statement**

##### **1. Project background**

The Government of Mongolia (GoM) entered into a grant agreement with Asian Development Bank (ADB) on 11 April 2016 for the purpose of implementing the “Dzud Disaster Response Project” through grant financing in the amount of 2,000,000 US\$.

For implementation of the project, no project unit has been established. According to Decree No.163 of the Minister of Finance dated on 29 April 2016, a working group was established. That consisted of 6 staff including working group leader 1, member 3 and secretary 1, to implement the dzud disaster response project in Mongolia and monitor the project activities.

The project objective: The project aims to address the most urgent survival and livelihood needs of people affected by the harsh dzud winter weather conditions that have been prevalent in numerous districts across the country since early December 2015.

## **2. Summary of significant accounting policies**

### **a) Basis of preparation**

The financial statements have been prepared on a cash basis. On this basis, cash receipts are recognized when received and cash expenditures are recognized when paid rather than incurred.

### **b) Basis of measurement**

The financial statements have been presented in U.S. Dollar (US\$). Financial statements prepared in accordance with the ADB's Loan Disbursement Handbook presented in US dollars, were converted using the closing rate of the Bank of Mongolia. Foreign exchange gains and losses are reported in the statement of sources and use of funds.

### **c) Basis of presentation**

The balances of accounts in the financial statements as of December 31, 2016 have been compared with such balances as of December 31, 2015.

### **d) Imprest Account and Statement of Expenditures**

The project has opened one US dollar imprest account in accordance with the Grant Agreement. The borrower manages and conducts the liquidation and replenishment of the imprest accounts in accordance with ADB's Loan Disbursement Handbook. The SOE procedure may be used for reimbursement of eligible expenditures or liquidation of advances in the imprest accounts.

### **e) Procurement**

The selection and engagement of contractors for goods and services are carried out in accordance with the Public Procurement Law of Mongolia and the Government Resolution No. 68 dated March 2, 2013, "Regulation for procurement of goods and services by the state and local governments".

## **3. Project implementation**

The project has received financing of 2.0 million US dollars /or 4,020.0 million togrog/ from the Asian Development Bank. The interests earned on imprest and sub-accounts were a/ 5.3 thousand US dollar /or 10.5 million togrog/ on imprest account No. 16000038545, b/ 59.6 million togrog or 28.1 thousand US dollar on sub-accounts No. 102100553316 and c/ 0.1

million togrog or 0.5 thousand US dollar on sub account No. 1060000044588, which were totaled to 70.3 million togrog or 33.4 thousand US dollars.

From the special and the sub accounts, the following expenses were incurred: for cash grants to families affected by the dzud-946.9 million togrog or 470.9 thousand US dollar, translation cost-11.0 million togrog or 4.8 thousand US dollar, advertising cost-0.1 million togrog or 0.084 thousand US dollar, bank charge-0.024 million togrog or 0.019 thousand US dollar. Based on consultations with ADB, the remaining fund for the total amount of 3,132.3 million togrog or 1,557.6 thousand US dollar was used to reimburse the expenditures incurred by the Mongolian Government to provide emergency support to people affected by the dzud during the project implementation period. It consisted of the following expenditures: purchase of vehicles 1,018.9 million togrog or 506.7 thousand US dollar, purchase of gers 98.9 million togrog or 49.2 thousand US dollar, removal of carcass and search for missing people 1,059.7 million togrog or 527.0 thousand US dollar, transportation expenses of hay and fodder 496.8 million togrog or 247.1 thousand US dollar, hay and fodder distribution expenses to herders 249.1 million togrog or 123.9 thousand US dollar, fuel expenses 73.5 million togrog or 36.6 thousand US dollar, disaster prevention fund 15.0 million togrog or 7.5 thousand US dollar, herder families healthcare 75.0 million togrog or 37.3 thousand US dollar, purchase of search and rescue equipment 45.0 million togrog or 22.4 thousand US dollar.

The balance of sub account for 0.024 million togrog or 0.01 thousand US dollar was refunded to ADB.

#### **4. Items of the statement of financial position**

##### **a) Cash and cash equivalents**

Balances of cash and cash equivalents as at December 31, 2016 are as follows.

	<b>2016.12.31</b>	<b>2015.12.31</b>
	<b>(in USD)</b>	<b>(in USD)</b>
Cash and cash equivalents		
Cash in bank		
Imprest account (USD)	10.00	-
Sub-account (togrog)		
<b>Total (USD)</b>	<b>10.00</b>	<b>-</b>

In accordance with the "Agreement on depositing project funds implemented by the Government of Mongolia through foreign loans and grants financing in the State Bank" entered into between the Ministry of Finance and the State bank on 13 June 2013, one USD imprest account number 16000038545 and one togrog sub-account number 102100553316 were opened in the State bank on 12 April 2016.

Grant financing received in the imprest account were transferred into sub-account and all expenditures were disbursed in togrog.

On 6 October 2016, a temporary togrog account number 106000044558 was opened in the State bank. Through this account, cash grants were distributed to 2473 households from 8 provinces that were more affected by dzud disaster. Cash grants were transferred to private account of the citizens.

According to official letter No.9-2/6258 of the Minister of Finance issued on 10 October 2016 the project sub-account number 102100553316 and the temporary account number 106000044558 were closed on 11 October 2017.

The imprest account of the project was closed on 23 February 2017 and balance of USD 10 was transferred to ADB.

Accounting records of the project are maintained manually /on excel/. During audit, we traced all transactions that incurred on imprest, sub-account and transactions incurred from the State treasury account (costs reimbursed from ADB fund) to its primary documents, accounting journal, statement of expenditure which is a part of withdrawal application form. There was no expenditure that was not approved and supported by primary document. All transactions were supported by the primary documents, accurately recorded in the accounting records and financed by the amount that was reported in the statement of expenditure.

b) Expenditure

	<b>2016.12.31</b>	
	<b>(in USD)</b>	<b>(in togrog)</b>
Vehicles	506,685.10	1,018,888,000.00
Ger	49,227.01	98,990,100.00
Removal of carcass, search for missing people	527,006.58	1,059,752,254.96
Transport cost of hay and fodder	247,083.96	496,858,656.10
Hay and fodder to herder families	123,905.97	249,161,004.00
Cash grant distribution	470,907.91	946,944,000.00
Fuel	36,551.54	73,507,532.10
Disaster prevention	7,459.38	15,000,000.00
Emergency public health and social welfare service	37,296.92	75,000,000.00
Search and rescue equipment	22,378.15	45,000,000.00
Translation	4,838.16	11,000,000.00
Advertisement	83.73	170,182.00
Correspondent bank fee	10.00	20,100.00
Commercial bank fee	1.87	4,000.00
<b>Total (USD)</b>	<b>2,033,436.14</b>	<b>4,090,295,829.16</b>

All expenditures were incurred for the intended purpose stated in the grant agreement with the ADB approval and by the resolution of State Emergency Commission, or the Government, or Deputy Prime Minister or the Minister of Finance.

Vehicles purchased under the grant aid were handed over to Emergency Management Department of provinces. The Emergency Management Departments of provinces have registered them in their property registration document.

Delivery of gers, hay and fodder, medical care and other services to the families, affected by disaster were effectively organized in collaboration with the State Emergency Commission, Deputy Prime Minister, Ministry of Finance, National Emergency Management Agency, Emergency Management Department of provinces Emergency Management Department and Governor's office of provinces.

Beneficiaries of the grant funding were around 9892 citizens of 2473 households in 237 soums of 15 provinces.

#### c) ADB financing

Financing received from ADB is USD 2,000,000 and if deduct the cash of USD 10 that remained from the financing and returned then the actual financing received is USD 1,999,990.00 which represents 99.99 percent of total financing under the grant agreement.

Withdrawal Application table

WA No.	Application type	Claimed date	Credited date	Amount claimed	Amount credited /US\$/	Difference /US\$/
WA00001	Initial advance	2016.04.11	2016.04.19	2,000,000.00	2,000,000.,00	
WA00002	Liquidation	2017.01.27		(1,999,990.00)	-	
WAs up to 31 December 2017 (WA00001-WA00002)				10.00	-	10.00*

\*Amount refunded to ADB

#### d) Interest income

The total interest income generated on imprest and sub-account of the project is amounted to USD 33,446.14. Interest income is shown by account in the below table.

Account number	Currency	Interest accumulated (MNT)	Interest accumulated (US dollar)
106000038545	US dollar	10,573,082.42	5,260.24
102100553316	togrog	59,614,340.38	28,129.38
106000044558	togrog	128,506.36	56.52
<b>Total</b>		<b>70,315,929.16</b>	<b>33,446.14</b>

## LETTER OF MANAGEMENT

### Background

From the National Audit Office has prepared the letter of management which generalized items disclosed in the period of auditing for the head of the annual financial statement of the year of 2016 of the “Dzud Disaster Response Project” financed by the Asian Development Bank technical assistance and has given the recommendation to improving the monitoring by changing of disadvantage of monitoring and procedures to it.

The content of this letter of management was arisen from the audit procedures of the National Audit Office have to be carried out due to the International Standard of Audit (ISA).

The implemented procedures and experiment what had done by us were devoted to audit judgement and opinion of the financial statement.

Therefore, the audit recommendation is being shown our judgement and opinion regarding the situation of period of re-auditing.

This recommendation has the purpose to improving the bookkeeping, financial statement and monitoring activity and accepting and implementing are the responsibility of your part.

We are thankful to the Director General and specialists of the Development Financing Department of the Ministry of Finance who collaborated with us in the period of audit.



**Implementation of the Regulation approved by the Minister for Finance****Observation**

The Director General, Development Financing and Debt Management Department, Ministry of Finance was authorized to be the first signatory and be in charge of project expenditure. The remittance of the special and sub-accounts of the project and was not signed by the second signatory. Therefore, it was observed that the Executing Agency did not follow the regulation No. 196.

In section 20.4 of the regulation, approved by the resolution No.196, 2016 of the Minister for Finance stipulated that "The authorized personnel of the Ministry of Finance shall be authorized to be the first signatory for bank remittance and the direct head of project implementation agencies shall be authorized as the second signatory, or the project director as authorized by the above personnel.

The section 1 of above regulation specified that "The Director, Debt Management Division, Development Financing and Debt Management Department, Ministry of Finance shall be authorized to be the first signatory for remittances of less than 150.0 million togrogs for projects funded by foreign loan and grants implemented by the Government of Mongolia".

**Risk**

Weak internal monitoring, irresponsibility of work

**Recommendation**

1. As the project executing agency of projects implemented, the Ministry of Finance should follow the Regulation No. 196 approved by the Minister of Finance in 2015;
2. To re-issue the Resolution No. 89 of the Minister for Finance, dated in 2015 by changing the names of authorized personnel, as these officials were changed.

**Response by Client**

A response letter is received on recommendations provided and it informed that follow up action to implement the recommendations will be taken.



ISSUE No.2

Priority No.2

**Implementation of the Regulation approved by Minister for Finance**

**Observation**

The project unit were not established. The project coordinator and financial officer were not appointed. Therefore, it was observed that the Resolution No.196, 2015 of the Minister for Finance was not followed.

**Recommendation**

The Ministry of Finance is being become as the Implementing agency or the administrative organization for the projects are being implemented must be adhered the resolution No.196 of the year of 2015 approved by the Minister of Finance.

**Risk**

Not establishment of the project unit will cause weak internal monitoring of project fund use and hinder smooth project implementation.

**Response by Client**

A response letter is received on recommendations provided and it informed that follow up action to implement the recommendations will be taken.

Монгол Улсын Засгийн газар  
Азийн хөгжлийн банк  
Тусламж G0475 МОН  
Монгол улсад тохиосон зудын гамшигт тусламж үзүүлэх төсөл

**АУДИТ ХИЙГДСЭН БАЛАНС**  
2016 оны 12 дугаар сарын 31-ны өдрөөр дуусгавар болсон жил

	2016.12.31 төгрөг	2015.12.31 төгрөг
<b>ХӨРӨНГӨ</b>		
<b>Мөнгө, түүнтэй адилтгах хөрөнгө</b>	<b>24,895.30</b>	<b>-</b>
Банк дахь мөнгө:		
Тусгай данс (ам.доллар)	24,895.30	
Дэд данс (ам.доллар)		
<b>Төслийн хуримтлагдсан зардал</b>	<b>4,090,295,829.16</b>	<b>0.00</b>
АХБ-ны тусламж		
Тээврийн хэрэгсэл	1,018,888,000.00	
Гэр	98,990,100.00	
Сэг зэм зайлуулах, алга болсон иргэдийг хайх	1,059,752,254.96	
Өвс, тэжээл хүргэх тээврийн зардалд	496,858,656.10	
Өвс, тэжээл /малчин өрхөд/	249,161,004.00	
Буцалтгүй тусламж /малчин өрхөд/	946,944,000.00	
Шатахуун	73,507,532.10	
Гамшгаас урьдчилан сэргийлэх	15,000,000.00	
Малчин өрхүүдийн эрүүл мэнд нийгмийн асуудлыг шийдвэрлэхэд	75,000,000.00	
Хайх аврах тоног төхөөрөмж	45,000,000.00	
Орчуулгын зардал	11,000,000.00	
Зарын төлбөр	170,182.00	
Дамжуулагч банкны шимтгэл	20,100.00	
Дотоодын банкны шимтгэл	4,000.00	
<b>НИЙТ ХӨРӨНГӨ</b>	<b>4,090,320,724.46</b>	<b>-</b>
<b>ЭХ ҮҮСВЭР</b>		
АХБ тусламж	4,020,000,000.00	
Хүүгийн орлого	70,315,929.16	
Ханшийн зөрүүний олз	4,795.30	
<b>НИЙТ ЭХ ҮҮСВЭР</b>	<b>4,090,320,724.46</b>	<b>0.00</b>

**Бэлтгэсэн:**

Сангийн яамны Хөгжлийн санхүүгийн газрын мэргэжилтэн

С.Мягмаржав

2018/01/19

**Баталгаажуулсан:**

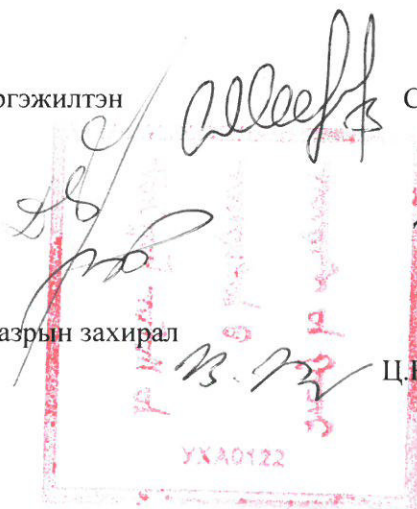
Үндэсний аудитын газрын гэрээт аудитор

Д.Баяраа

**Хянасан:**

Үндэсний аудитын газрын Санхүүгийн аудитын газрын захирал  
бөгөөд Тэргүүлэх аудитор

Ц.Наранчимэг



Монгол Улсын Засгийн газар  
Азийн хөгжлийн банк  
Тусламж G0475 МОН

Монгол улсад тохиосон зудын гамшигт тусламж үзүүлэх төсөл

АУДИТ ХИЙГДСЭН ЭХ ҮҮСВЭР ЗАРЦУУЛАЛТЫН ТАЙЛАН  
2016 оны 12 дугаар сарын 31-ны өдрөөр дуусгавар болсон жил

	2016.12.31-ээрх хуримтлагдсан дүн төгрөг	2015.12.31-ээрх хуримтлагдсан дүн төгрөг
<b>ЭХ ҮҮСВЭР</b>		
АХБ тусламж	4,020,000,000.00	
Хүүгийн орлого	70,315,929.16	
Ханшийн зөрүүний олз	4,795.30	
<b>НИЙТ ЭХ ҮҮСВЭР</b>	<b>4,090,320,724.46</b>	<b>-</b>
<b>ЭХ ҮҮСВЭРИЙН ЗАРЦУУЛАЛТ</b>		
АХБ-ны тусламж		
Тээврийн хэрэгсэл	1,018,888,000.00	
Гэр	98,990,100.00	
Сэг зэм зайлуулах, алга болсон иргэдийг хайх	1,059,752,254.96	
Өвс, тэжээл хүргэх тээврийн зардалд	496,858,656.10	
Өвс, тэжээл /малчин өрхөд/	249,161,004.00	
Буцалтгүй тусламж /малчин өрхөд/	946,944,000.00	
Шатахуун	73,507,532.10	
Гамшгаас урьдчилан сэргийлэх	15,000,000.00	
Малчин өрхүүдийн эрүүл мэнд нийгмийн асуудлыг шийдвэрлэхэд	75,000,000.00	
Хайх аврах тоног төхөөрөмж	45,000,000.00	
Орчуулгын зардал	11,000,000.00	
Зарын төлбөр	170,182.00	
Дамжуулагч банкны шимтгэл	20,100.00	
Дотоодын банкны шимтгэл	4,000.00	
<b>НИЙТ ЗАРЦУУЛАЛТ</b>	<b>4,090,295,829.16</b>	<b>0.00</b>
<b>Эх үүсвэрийн үлдэгдэл</b>	<b>24,895.30</b>	<b>-</b>

Банкин дахь мөнгө:

Тусгай данс (ам.доллар)

24,895.30

Дэд данс (ам.доллар)

**Мөнгө, түүнтэй адилтгах хөрөнгийн үлдэгдэл**

**24,895.30**

**0.00**

**Бэлтгэсэн:**

Сангийн яамны Хөгжлийн санхүүгийн газрын мэргэжилтэн

С.Мягмаржав 2018/01/13

**Баталгаажуулсан:**

Үндэсний аудитын газрын гэрээт аудитор

Д.Баяраа

**Хянасан:**

Үндэсний аудитын газрын Санхүүгийн аудитын газрын захирал  
бөгөөд Тэргүүлэх аудитор

Ц.Наранчимэг

Монгол Улсын Засгийн газар  
Азийн хөгжлийн банк  
Тусламж G0475 МОН  
Монгол улсад тохиосон зудын гамшигт тусламж үзүүлэх төсөл

**АУДИТ ХИЙГДСЭН ТУСГАЙ ДАНСНЫ ТАЙЛАН**  
2016 оны 12 дугаар сарын 31-ны өдрөөр дуусгавар болсон жил

	2016.04.30 (төгрөг)	2015.12.31 (төгрөг)
<b>Хэсэг А - Дансны хөдөлгөөн</b>		
<b>Эхний үлдэгдэл</b>		
Нэмэх нь		
Тайлант жилд хүлээн авсан мөнгө	4,020,000,000.00	
Дэд данснаас орж ирсэн мөнгө		
Хүүгийн орлого	10,573,082.40	
Хасах нь		
Зарцуулсан		
Төгрөгийн дэд дансанд шилжүүлсэн	4,030,528,087.10	
Дамжуулагч банкны шимтгэл	20,100.00	
<b>Эцсийн үлдэгдэл</b>	<b>24,895.30</b>	<b>0.00</b>
<b>Хэсэг Б - Дансны тохируулга</b>		
<b>АХБ-ны урьдчилгааны дүн</b>	<b>4,020,000,000.00</b>	
<b>Тусгай дансны тайлант жилийн үлдэгдэл</b>	<b>24,895.30</b>	<b>0.00</b>
Нэмэх:		
Тусгай дансны үлдэгдлээс хасалт хийсэн дүн	4,090,271,729.16	
Зарцуулсан боловч нэхэмжлээгүй дүн		
Нэхэмжилсэн боловч санхүүжүүлээгүй дүн		
Дамжуулагч банкны шимтгэл		
Өмнөх жил		
Тайлант жил	20,100.00	
Дотоодын банкны шимтгэл		
Өмнөх жил		
Тайлант жил	4,000.00	
Ханшийн зөрүүний гарз		
Төгрөгийн дэд дансны 2016.12.31-ны үлдэгдэл	-	
Хасах:		
Хүүгийн орлого		
Өмнөх жил		
Тайлант жил	70,315,929.16	
Ханшийн зөрүүний олз	4,795.30	
<b>Тусгай дансны нийт урьдчилгааны дүн</b>	<b>4,020,000,000.00</b>	<b>0.00</b>

**Бэлтгэсэн:**

Сангийн яамны Хөгжлийн санхүүгийн газрын мэргэжилтэн

С.Мягмаржав

2018/01/19

**Баталгаажуулсан:**

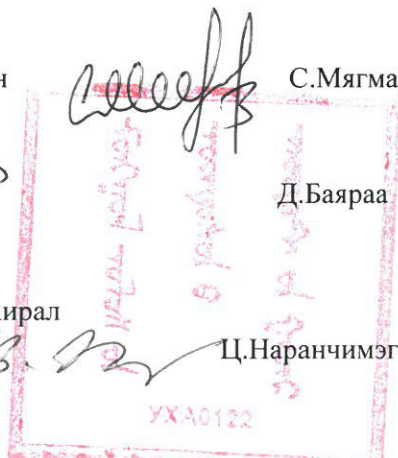
Үндэсний аудитын газрын гэрээт аудитор

Д.Баяраа

**Хянасан:**

Үндэсний аудитын газрын Санхүүгийн аудитын газрын захирал  
бөгөөд Тэргүүлэх аудитор

Ц.Наранчимэг





Монгол Улсын Засгийн газар

Азийн хөгжлийн банк

Тусламж G0475 МОН

Монгол улсад тохиосон зудын гамшигт тусламж үзүүлэх төсөл

**АУДИТ ХИЙГДСЭН АМ.ДОЛЛАРЫН ДЭД ДАНСНЫ ТАЙЛАН**  
**ТӨРИЙН БАНК 10210055316**

2016 оны 12 дугаар сарын 31-ны өдрөөр дуусгавар болсон жил

	2016.12.31 (төгрөг)	2015.12.31 (төгрөг)
<b>Дансны хөдөлгөөн</b>		
<b>Эхний үлдэгдэл</b>		
Нэмэх нь		
Тусгай данснаас татан авсан	4,030,528,087.10	
Хүүгийн орлого	59,614,340.38	
Ханшийн зөрүүний олз	4,795.30	
Хасах нь		
Зарцуулсан	3,140,511,222.78	
Төгрөгийн дэд данс 2 руу шилжүүлсэн	949,632,000.00	
Банкны шимтгэл	4,000.00	
<b>Эцсийн үлдэгдэл</b>	<b>0.00</b>	<b>0.00</b>

**Бэлтгэсэн:**

Сангийн яамны Хөгжлийн санхүүгийн газрын мэргжилтэн

С.Мягмаржав

2018/01/19

**Баталгаажуулсан:**

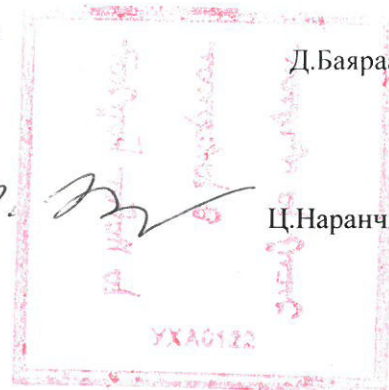
Үндэсний аудитын газрын гэрээт аудитор

Д.Баяраа

**Хянасан:**

Үндэсний аудитын газрын Санхүүгийн аудитын газрын  
захирал бөгөөд Тэргүүлэх аудитор

Ц.Наранчимэг



Монгол Улсын Засгийн газар

Азийн хөгжлийн банк

Тусламж G0475 МОН

Монгол улсад тохиосон зудын гамшигт тусламж үзүүлэх төсөл

**АУДИТ ХИЙГДСЭН АМ.ДОЛЛАРЫН ДЭД ДАНСНЫ ТАЙЛАН**  
**ТӨРИЙН БАНК 106000044588**

2016 оны 12 дугаар сарын 31-ны өдрөөр дуусгавар болсон жил

	2016.12.31 (төгрөг)	2015.12.31 (төгрөг)
<b>Дансны хөдөлгөөн</b>		
<b>Эхний үлдэгдэл</b>		
Нэмэх нь		
Дэд данснаас татан авсан	949,632,000.00	
Хүүгийн орлого	128,506.36	
Хасах нь		
Зарцуулсан	949,760,506.36	
Банкны шимтгэл		
<b>Эцсийн үлдэгдэл</b>	<b>0.00</b>	<b>0.00</b>

**Бэлтгэсэн:**

Сангийн яамны Хөгжлийн санхүүгийн газрын мэргжилтэн

С.Мягмаржав

2018/01/19

**Баталгаажуулсан:**

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