



BAKER TILLY DALAIWAN AUDIT

INDEPENDENT AUDITOR'S REPORT

MILLENNIUM CHALLENGE ACCOUNT MONGOLIA

Financial audit of the Fund Accountability Statement of the Millennium Challenge Corporation (MCC) Resources Managed by MCA-Mongolia under the Compact Agreement dated July 27, 2018 between MCC and the Government of Mongolia

Audit period: Option Period #1 from April 1, 2021 to March 31, 2022

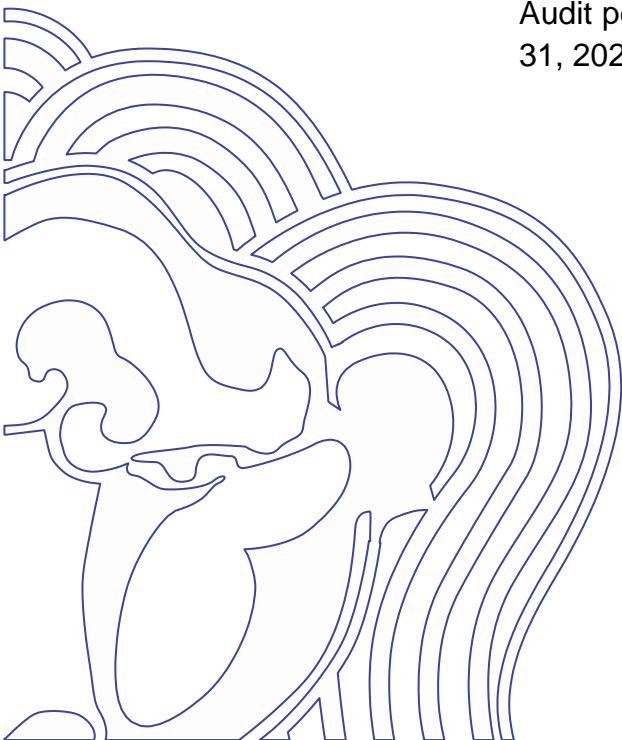


TABLE OF CONTENTS

SECTION	PAGE
Transmittal letter	5
1. Background	6
General description	
Project goal and objectives	
Project monitoring	
The period covered	
Multi-Year Financial Plan Summary and its performance	
Identification of Entities	
Indirect cost rates	
Cost-sharing schedule (Recipient Country Government Contribution)	
Review of prior audit recommendations	
2. Audit Objectives and Scope	10
Audit objectives	
Audit scope	
Audit procedures performed	
Scope limitation	
GAGAS departures	
3. Summary of Audit Results and Management Actions	14
Audit Findings on the FAS for CDF for the audit period from April 1, 2021 to October 31, 2021; FAS for CFF for the audit period from April 1, 2021 to March 31, 2022 and FAS for CF for the audit period from April 1, 2021 to March 31, 2022	
Audit Findings on MCA-Mongolia's Internal control over Financial Reporting	
Audit Findings on MCA-Mongolia's Compliance with the agreement terms, applicable laws, and regulations	
Management view on the audit results	
4. Audit reports and explanatory notes	16
Independent Auditor's Report on the Consolidated Fund Accountability Statement	
Consolidated Fund Accountability Statement for the audit period from April 1, 2021 to March 31, 2022	
CDF Fund Accountability Statement for the audit period from April 1, 2021 to October 31, 2021	
CFF Fund Accountability Statement for the audit period from April 1, 2021 to March 31, 2022	
CF Fund Accountability Statement for the audit period from April 1, 2021 to March 31, 2022	
Notes to the Consolidated Fund Accountability Statement	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters	
5. Schedule of Audit Findings and Questioned costs	32
Summary of audit findings and questioned costs	
Audit findings on Internal control	
Audit findings on Compliance with agreements and applicable laws and regulations	
6. Review of Prior Audit Recommendations	50

MCA-Mongolia's Board of Directors

Voting members

B. Battsetseg	Chairman, Minister for Foreign Affairs of Mongolia
E. Battulga	Member, State Secretary of the Ministry of Environment and Tourism
S. Magnaisuren	Member, State Secretary of the Ministry of Construction and Urban Development
J. Ganbat	Member, State Secretary of the Ministry of Finance
B. Nasantogtokh	Member, State Secretary of Ministry of Energy
D.Ganbold	Member, General Manager of Ulaanbaatar City and Head of the Governor's Office
N.Batsukh	Member, Professor, Geology and Hydrogeology Department of School of Geology and Mining Engineering, Mongolian University of Science and Technology
B.Tsolmon	Chief Executive Officer of the Zorig Foundation
O.Amartuvshin	President of MNCCI

Non-voting members

Tina Yu	Member, MCC Resident Country Director in Mongolia
D. Enkhjargal	Member, Interim Chief Executive Officer of MCA-Mongolia

MCA-Mongolia's Management Team

D.Enkhjargal	Interim Chief Executive Officer
D.Khulan	Chief Operating Officer
T.Enkhtungalag	Acting Deputy Chief Executive Officer
B.Otgonbayar	Acting General Counsel
B.Batbayar	Director of Internal Audit
B.Batsukh	Downstream Wells Director
T.Khishigt	Wastewater Recycling Director
L.Unurjargal	Sustainability Director
B.Uuganbayar	Monitoring and Evaluation Director
A.Otgonchimeg	Gender and Social Inclusion Director
G.Uranchimeg	Director of Finance
	Program Administration Director (in process of recruitment)
S.Doljin	Acting Procurement Director
Ts.Dashzeveg	Environmental and Social Performance Director
B.Amarsanaa	Communications Director

List of abbreviations

AICPA	American Institute of Certified Public Accountants
CDF	Compact Development Funding
CFF	Compact Implementation Funding
CF	Compact Funding
CHPP	Combined heating and power plant
CP	Conditions Precedent
CRP	Cost Recovery Plan
CRTA	Cost Recovery Technical Assistance
CWWTP	Central Wastewater Treatment Plant
FA	Fiscal Agent
FAP	Fiscal Accountability Plan
FAS	Fund Accountability Statement
GAGAS	Generally Accepted Government Auditing Standards
IBC	Interior Business Center
IEA	Implementation Entity Agreement
IT	Information Technology
HR	Human Resources
MCC	Millennium Challenge Corporation
MCA-Mongolia	Millennium Challenge Account - Mongolia
MICPA	Mongolian Institute of Certified Public Accountants
MNCCI	Mongolian National Chamber of Commerce and Industry
MCUD	Ministry of Construction and Urban Development
MNT	Mongolian Tugrugs (national currency of Mongolia)
NSO	National Statistical Office
OSNAAUG	Department of Housing and Public Utilities
PA	Procurement Agent
PMC	Project Management Consulting
RAP	Resettlement Action Plan
WSRC	Water Services Regulatory Commission
TEP	Tender Evaluation Panel
WSP	Water Supply Project
USUG	Water Supply and Sewerage Authority
USA	United States of America
US\$	U.S dollars



BAKER TILLY
DALAIVAN AUDIT

Audit assurance, property and business
valuation advisory services

Amarsanaa street-5, Bayangol district
Ulaanbaatar-16066, Mongolia
Phones:70005401, 70005404,70005405
Fax:+976-70005403
E-mail:info@btdalaivanaudit.mn
Web site: www.btdalaivanaudit.mn

Board of Directors of MCA-Mongolia
Millennium Challenge Account-Mongolia
Floor 5, MPM Complex,
UNESCO Street, Sukhbaatar
District,
Ulaanbaatar, Mongolia

Transmittal Letter

RE: Financial audit of the MCC Resources managed by MCA-Mongolia under the Compact Agreement between MCC and the Government of Mongolia

The period covered by the audit: April 1, 2021 to March 31, 2022

We are pleased to present our report on the MCC Resources managed by MCA-Mongolia for the audit period from April 1, 2021 to March 31, 2022. This report is prepared in accordance with the terms of reference specified in the contract between Baker Tilly Dalaivan Audit LLC and MCA-Mongolia dated April 1, 2021.

The total costs incurred for the period were US\$29,953,525.67.

Our report has included the following:

- Independent Auditor's Report on the Consolidated Fund Accountability Statement (CDF, CFF and CF)
- Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters

We have provided a Management Letter to MCA-Mongolia that noted immaterial internal control deficiencies and immaterial noncompliance findings.

Audit Partner Ts.Jigden

Baker Tilly Dalaivan Audit LLC

September 12, 2022

1. BACKGROUND

1.1 General description

The Government of Mongolia acting through the Ministry of Foreign Affairs and the United States of America acting through the Millennium Challenge Corporation (MCC) have entered into (a) The Grant and Implementation Agreement on May 3, 2017 and duly amended on July 17, 2020 in an amount not to exceed US\$12,025,150 for the development and facilitation of implementation of a Millennium Challenge Compact and (b) the Millennium Challenge Compact ("Compact") on July 27, 2018 in the total amount of US\$350,000,000. The US\$12,025,150 for the development and facilitation of implementation of the Compact constitutes (i) the MCC managed funds of US\$8,500,000 and (ii) the Government managed funds of US\$3,525,150.

The US\$350,000,000 of Compact includes (i) MCC Grant to the Government an amount not to exceed US\$321,940,000 ("Program Funding") for use by the Government to implement the Water Supply Project and (ii) MCC Grant to the Government, in addition to the Program Funding, an amount not to exceed US\$28,060,000 ("CFF") under Section 609 (g) of the Millennium Challenge Act of 2003 for use by the Government to facilitate implementation of the Compact. Those parties signed the Program Implementation Agreement on March 5, 2019. The Compact entered into force on March 31, 2021. The Program Funding is available for a five-year period after the Compact's entry into force. In addition, according to the terms of the Compact, the Government committed to making a contribution of US\$111,760,000 over the Compact term toward meeting the Project objectives of the Compact.

MCA-Mongolia, which was established on October 3, 2018 by the Government Resolution #297, is a state-owned entity to act as the Government's primary agent in implementing the Program and perform the Government's right and obligation to oversee, manage and implement the Program, including without limitation, to manage the implementation of projects and their activities, allocating resources and managing procurements. MCA-Mongolia comprises (a) the Board of Directors, who have ultimate authority to direct MCA-Mongolia, and (b) the Management Unit, which has the principal responsibility for the day-to-day management of the Program. In addition, MCA-Mongolia engaged a Procurement and Fiscal Agent to carry out specified procurement and financial management activities in furtherance of the Compact and related agreement.

1.2 Project goal and objectives

The objective of the Water Supply Project is to meet the projected demand for water in Ulaanbaatar for residential consumers and commercial and industrial users. The Water Supply Project supports a series of strategically important investments to achieve the following activities:

- (i) **Downstream Wells Activity** – This activity supports the development of the Biokombinat Wellfield and the Shuvuun Wellfield downstream of Ulaanbaatar. MCC Funding for this activity funds the construction of (a) approximately 30 new wells in the two downstream wellfields, (ii) associated pumps, local collection pipelines, equalization tanks, and a transmission line to convey the water from the wellfields, (iii) an advanced water purification plant located at the western edge of the city to remove contaminants (designed to include multiple barriers to remove pathogens, volatile organic compounds, heavy metals, and other contaminants that may be present in the groundwater), and (iv) storage facilities, pumping station, and conveyance pipeline to transport finished water from the purification plant into the existing municipal water network of Ulaanbaatar.
- (ii) **Wastewater Recycling Activity** – This activity supports the recycling and reuse of a large quantity of wastewater effluent from the central wastewater treatment plant ("CWWTP"). MCC Funding for this activity funds the construction of (i) a wastewater recycling plant (located on available public land adjacent to the CWWTP) designed to treat a portion of the effluent from the CWWTP, (ii) pumping stations and associated pipelines to convey the recycled water to water storage facilities near combined heating and power plants ("CHP") three and four (known as "CHP-3" and "CHP-4"), and (iii) internal piping, storage facilities, and control systems to facilitate the use of recycled wastewater for certain processes within CHP-3 and CHP-4.
- (iii) **Water Sector Sustainability Activity**- This activity supports five interventions that address policy, legal, regulatory, and institutional issues and improve the long-term sustainability of the water sector in Ulaanbaatar.

- (A) The “Cost Recovery Sub-Activity” supports technical assistance to the WSRC for a detailed examination of the structuring of water and wastewater tariffs based on a detailed assessment of the willingness and ability of USUG customers to pay for improved water service. The sub-activity also supports assistance to USUG for the preparation of rate cases that reflect the goal of full coverage of costs for operations, maintenance and depreciation, as required by law.
- (B) The “Ger Area Cost Containment Sub-Activity” supports efforts to curtail the high costs that USUG bears for providing water through the system of water kiosks throughout the ger areas of Ulaanbaatar. The sub-activity supports a variety of small-scale works intended to reduce the direct costs associated with the delivery and sale of water, including the conversion of manually operated kiosks to automatic “smart” kiosks that operate longer hours at lower cost, the extension of supply pipes in order to connect some water kiosks that are currently supplied by tanker truck to a continuous piped water supply, and the construction of additional filling stations to reduce distance and time traveled by USUG’s fleet of tanker trucks. The sub-activity also supports improvements in data sharing, planning, and coordination among USUG, municipal agencies, and district offices around the expansion and development of municipal infrastructure.
- (C) The “Utility Operations Sub-Activity” supports the strengthening of critical operational capacities within USUG, to be identified through the implementation of Aqua Rating, an international assessment and benchmarking tool for utility operations developed by the International Water Association. The sub-activity includes funding support for a comprehensive partnership between USUG and an experienced water utility from a developed country that operates in similar conditions or deals with similar concerns. The sub-activity also includes targeted support for specific concerns with USUG’s ability to operate, maintain, manage and plan its asset base, as well as its ability to capture, analyze and make use of customer data.
- (D) The “Industrial Pre-Treatment and Pollution Control Sub-Activity” supports efforts to reduce the incidence of industrial pollution in the municipal wastewater collection system before it is constructed and commissioned. The sub-activity will fund technical assistance to identify and model sources of industrial pollution and strengthen pollution standards, ordinances and penalties. The sub-activity also provides technical assistance and advanced laboratory equipment to those Government and municipal government entities responsible for monitoring, detecting, and enforcing pollution regulations in Ulaanbaatar.
- (E) The “Public Awareness and Behavior Change Sub-Activity” supports improved communication and engagement with stakeholders and the general public in an effort to improve awareness and understanding of the scarcity of water resources available to Ulaanbaatar and the actual costs of exploiting them in ways that protect environmental and social concerns.

1.3 Project monitoring

The Compact is monitored systematically, and progress is reported regularly through the Indicator Tracking Table (ITT). The following table shows output indicators only that have been extracted from ITT.

Activity	Number	Indicator Name	Unit of Measure	End Of Compact Target	Percent Complete to Date	Baseline	Y1 Target	Y1 % Complete
Activity 1: Downstream Wells	DWA P-04	Water production capacity added	Millions of liters per day	50.00		0.00	0.00	
Activity 1: Downstream Wells	DWA P-01	Date Advanced Water Purification Plant (AWPP) is complete	Date	03/30/2026	Pending			
Activity 1: Downstream Wells *	WRA P-04	Treatment process units within centralized water or wastewater treatment facilities constructed, rehabilitated, or expanded	Number			0.00		
Activity 1: Downstream Wells	DWA P-04	Water production capacity added (groundwater wells)	Millions of cubic meters per year	50.00		0.00	0.00	
Activity 2: Wastewater	WSP P-02	Water production capacity added (water recycling plant)	Millions of cubic meters per year	14.60		0.00	0.00	
Sub-activity 3.1: Cost Recovery **		Completion of willingness to pay study	Date	03/31/2021	Complete		03/31/2021	Complete
Sub-activity 3.1: Cost Recovery	WSACR P-11	Completion of affordability and customer assistance study	Date	03/31/2022	Pending		03/31/2022	Pending
Sub-activity 3.1: Cost Recovery	WSACR P-02	Completion of tariff options studies	Date	03/31/2021	Pending		03/31/2021	Pending
Sub-activity 3.3: Utility Operations ***	WSAOU P-05	Trips between partner utility and USUG	Number			0.00		

* The construction of Treatment process units within centralized water or wastewater treatment facilities (AWPP) has not started. MCA-Mongolia signed a contract with "MAPA INSAAT Ve TICARET AS" for the Construction Works of an Advanced Water Purification Plant (AWPP) and SCADA Controls in Aug 2, 2021. The Mobilization was expected to begin in Aug 18, 2021, and actual construction in May 2022. No data to report

**The construction of AWPP has not started. The construction is expected to begin in May 2022. No data to report

*** Letter of Acceptance for final deliverable was issued by MCA-Mongolia's GSI team on Dec17, 2021 and Final Reports were delivered to WSRC on Jan 7, 2022.

****The Water Operators' Partnership/Twinning Facilitator solicitation has not begun. The partnership is expected to begin in Q3 2022 provided that the Facilitator solicitation is announced in Q4 2021. No data to report

1.4 The period covered

Our audit covered the Fund Accountability Statement for CDF for the audit period from April 1, 2021 to October 31, 2021, Fund Accountability Statement for CFF for the audit period from April 1, 2021 to March 31, 2022 and Fund Accountability Statement for CF for the audit period from April 1, 2021 to March 31, 2022.

In October 2021, the budget of the Compact Development Fund (CDF) was closed with no outstanding fund balance. Therefore, the Fund Accountability Statement for CDF was prepared as of October 31, 2021.

As the Compact entered into force on March 31, 2021, the initial expenditure of the Compact Fund (CF) was incurred in May 2021.

1.5 Multi-Year Financial Plan Summary and its performance

MYFP Summary- per Compact Agreement (in million US\$)

Component	CFF	Compact period					Program total	Gov't total	MCC total
		Year 1	Year 2	Year 3	Year 4	Year 5			
Water Supply Project									
Downstream Wells Activity	16.00	18.65	26.01	81.60	82.62	73.88	298.76	59.26	239.50
Wastewater Recycling Activity	2.25	12.33	20.04	27.70	23.04	10.34	95.70	52.50	43.20
Water Sector Sustainability Acti	2.96	5.18	4.41	4.57	1.98	0.90	20.00	0.00	20.00
Subtotal	21.21	36.16	50.46	113.87	107.64	85.12	414.46	111.76	302.70
Monitoring and Evaluation									
Monitoring and Evaluation expe	0.03	0.35	3.45	1.79	1.12	3.62	10.36	0.00	10.36
Subtotal	0.03	0.35	3.45	1.79	1.12	3.62	10.36	0.00	10.36
Program Administration									
Accountable entity expenses	6.55	3.28	3.34	3.49	3.54	4.93	25.13	0.00	25.13
Agent expenses	0.03	2.00	2.00	2.00	2.00	2.67	10.70	0.00	10.70
Audit expenses	0.24	0.16	0.17	0.17	0.18	0.19	1.11	0.00	1.11
Subtotal	6.82	5.44	5.51	5.66	5.72	7.79	36.94	0.00	36.94
TOTAL ESTIMATED FUNDING	28.06	41.95	59.42	121.32	114.48	96.53	461.76	111.76	350.00

Approved MYFP Summary and its performance (in million US\$)

Component	CFF- MYFP	Total disburs	Remaining MYFP	Perfor %		Compact Y1 MYFP	Total disburs	Remaining MYFP	Perfor %
Downstream Wells Activity	19.98	18.26	1.72	91.39		255.73	21.53	234.20	8.42
Wastewater Recycling Activity	0.03	0.03	0.00	100.00		13.94	2.67	11.27	19.15
Water Sector Sustainability Acti	0.81	0.52	0.29	64.20		19.20	0.00	19.20	*0.00
Subtotal	20.82	18.81	2.01	90.35		288.87	24.20	264.67	8.38
Monitoring and Evaluation									
Monitoring and Evaluation expe	0.00	0.00	0.00	0.00		10.33	0.00	10.33	0.00
Subtotal	0.00	0.00	0.00	0.00		10.33	0.00	10.33	0.00
Program Administration									
Accountable entity expenses	5.88	5.53	0.35	94.05		12.90	0.58	12.32	4.50
Fiscal management	0.72	0.72	0.00	100.00		4.06	0.62	3.44	15.27
Procurement management	0.54	0.54	0.00	100.00		5.13	0.74	4.39	14.42
Audit expenses	0.10	0.10	0.00	100.00		0.65	0.00	0.65	0.00
Subtotal	7.24	6.89	0.35	95.17		22.74	1.94	20.80	8.53
TOTAL ESTIMATED FUNDING	28.06	25.70	2.36	91.59		321.94	26.14	295.80	8.12

*The total of 349.2 US\$ was disbursed as of Mar 31, 2022; however, it is rounded to the nearest million.

1.6 Identification of Entities

There are main parties that are involved:

- Millennium Challenge Corporation
- Fiscal Agent being served by Cardno Emerging Markets USA, Ltd
- Procurement Agent being served by Charles Kendall and Partners Ltd
- Ministry of Foreign Affairs
- Ministry of Environment and Tourism
- Ministry of Energy
- Ministry of Construction and Urban Development
- Ministry of Finance
- Ulaanbaatar Governor's office
- Central Wastewater Treatment Plant
- Combined Heating and Power Plant #3
- Combined Heating and Power Plant #4
- Water Supply and Sewerage Authority (USUG)
- National Statistics Office (NSO)
- Department of Housing and Public Utilities (OSNAAUG)
- Water Services Regulatory Commission (WSRC)
- Trade and Development Bank (TDB)

1.7 Indirect cost rates

The Compact agreement and other agreements have not stipulated any MCC-authorized provisional indirect cost rate; thus, no procedures were performed on indirect cost.

1.8 Cost-sharing schedule (Recipient Country's Government Contribution)

According to the Compact Agreement, the Government shall contribute over the Compact term period. The Government contribution was not disbursed during the reporting period; thus, MCA-Mongolia did not prepare the cost-sharing schedule.

1.9 Review of prior audit recommendations

We followed up on the prior audit recommendations, and implementation status has been shown.

Audit recommendation	Status of implementation
MCA-Mongolia's management should evaluate if the component principles stated in <i>GAO Standards for Internal Control in the Federal Government</i> are pursued.	Fully implemented (closed)
MCA-Mongolia should develop appropriate policies and procedures to determine and disclose related parties and related party transactions and include the relevant requirements in the Fiscal Accountability Plan.	Unnecessary (closed)
Fiscal Agent should perform at least one test annually for the disaster recovery plan under the business continuity plan and document the test result.	Fully implemented (closed)
After the working conditions of each position of MCA-Mongolia has been assessed and identified, the article on working condition shall be added to the employment agreement template.	Partially implemented (repeated audit finding)
As stated in the HR Manual, overtime payments should be structured based on the provisions of the Labor Law of Mongolia.	Partially implemented (repeated audit finding)
The paragraph in the HR Manual that states " provide one (1) month salary in lieu of notice period" should be deleted.	Partially implemented (repeated audit finding)

2. AUDIT OBJECTIVES AND SCOPE

2.1 Audit objectives

The objective of this audit engagement is to conduct a financial audit of the MCC resources managed by MCA-Mongolia for the audit period from April 1, 2021 to March 31, 2022 under the Grant and Implementation Agreement and Millennium Challenge Compact in accordance with the U.S. Government Auditing Standards issued by the Comptroller General of the United States and the MCC Accountable Entities Guidelines for Contracted Financial Audits.

The specific objectives of the audit of the MCC funds are to:

- Express an opinion on whether the Fund Accountability Statement for the MCC-funded programs presents fairly, in all material respects, revenues received, costs incurred, assets and technical assistance directly procured by MCC and the Government (including by MCA-Mongolia and its Covered Providers) for the audit period, in conformity with the terms of the agreements and generally accepted accounting principles or other comprehensive basis of accounting (including the cash receipts and disbursements basis and modifications of the cash basis).
- Evaluate and obtain a sufficient understanding of the MCA-Mongolia's internal controls related to the MCC-funded programs, assess control risk, and identify significant deficiencies or material weaknesses in the design and effectiveness of these internal controls. This evaluation should include the internal control related to required cost-sharing contributions.
- Perform tests to determine whether MCA-Mongolia complied, in all material respects, with the Compact Development Funding Agreement, Compact (including those MCC rules and regulations regarding Government Contributions), supplemental agreements, and applicable laws and regulations related to MCC-funded grants, contracts, and implementing agreements. All material instances of noncompliance and all illegal acts that have occurred or are likely to have occurred should be identified. Such tests should include the compliance requirements related to the required cost-sharing contributions, if applicable. Specifically, we will perform tests to determine whether the recipient organization complied, in all material respects, with the MCC Program Procurement Guidelines, the MCC Cost Principles for Government Affiliates, the MCA-Mongolia's Fiscal Accountability Plan in effect during the audit period, and the terms and conditions of the MCC-funded grant, contract, or implementing agreement.
- Determine whether MCA-Mongolia has taken adequate corrective action on prior audit recommendations.

2.2 Audit scope

The audit involves expressing an opinion on the Fund Accountability Statement for the CDF funding for the audit period from April 1, 2021 to October 31, 2021; the Fund Accountability Statement for the CFF funding for the audit period from April 1, 2021 to March 31, 2022 and the Fund Accountability Statement for the CF funding for the audit period from April 1, 2021 to March 31, 2022 and illustrating an audit report on internal control and compliance with terms of agreements and applicable laws and regulations.

Pre-Audit Steps

We obtained and reviewed the following documents:

1. CDF, CFF, Compact, and any supplemental agreements by and between MCC, the Government, and MCA-Mongolia for the development and implementation of the Compact
2. Other documents include but are not limited to: a) Program Implementation Agreement, b) Bank Agreement, c) Procurement Agent Agreement, d) Fiscal Agent Agreement, e) Fiscal Accountability Plan, f) Procurement Operations Manual, g) Procurement Plan, h) Program Procurement Guidelines, i) Implementing Entity Agreement(s), j) M&E Plan, k) Implementation Plan(s), l) Audit Plan and m) Work Plans for the relevant Project or Project Activity
3. The agreements between MCA-Mongolia and contractors and grantees, and any other entities implementing MCC or Government-funded activities on the MCA-Mongolia's behalf
4. The sub-agreements or implementing entity agreements between MCA-Mongolia and other implementing entities
5. Contracts and subcontracts with third parties

6. The budgets, implementation letters, and written procedures approved by MCC and MCA-Mongolia
7. All program financial and progress reports; charts of accounts; organizational charts; accounting systems descriptions; procurement policies and procedures; and receipt, warehousing, and distribution procedures for materials, as necessary, to complete the required work
8. MCC's *Cost Principles for Government Affiliates* are in effect during the audit period
9. Any previous audits, financial reviews, etc. that directly relate to the objectives of the audit

Fund Accountability Statement

The Fund Accountability Statement is a financial statement that presents MCA-Mongolia's revenues received from MCC and the Government for the audit period, the costs reported by MCA-Mongolia as incurred during that period, cash balances on hand, the commodities, assets, and technical assistance procured by MCC or the Government for the use of MCA-Mongolia.

We examined the separate Fund Accountability Statements of MCA-Mongolia for activities funded with MCC resources, including CDF, CFF and CF. The Fund Accountability Statements did not include cost-sharing contributions from the Government, as the contribution will commence in Compact Year 2. MCA-Mongolia management accepted responsibility for the statement's accuracy before the audit commenced.

Common Payment System

We have reviewed all payment ledgers via Common Payment System (CPS), and payment detail reports to determine those payments were made in accordance with policies and procedures for CPS. Also, selected payment request forms have been reviewed regarding those requests made and approved by authorized persons stated in the Fiscal Accountability Plan. Payment amounts have been reconciled with vendors' invoices and payment detail reports. We have scrutinized amounts in payment detail reports with the accounting records of MCA-Mongolia and assessed the MCC payment deadline.

Internal Control Structure

We reviewed MCA-Mongolia's internal control structure related to program activities to understand the design of relevant control policies and procedures and whether those policies and procedures have been placed in operation and in compliance with the Fiscal Accountability Plan. To understand and assess MCA-Mongolia's internal control, we followed guidance contained in AICPA SAS No. 122 (AU-C sec 315) *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement* and AICPA SAS No. 122 (AU-C sec 265) *Communicating Internal Control Related Matters Identified in an Audit*.

We outline the tasks that we performed during our review of MCA-Mongolia's internal controls below:

- (a) Obtained a sufficient understanding of internal controls to plan the audit and to determine the nature, timing, and extent of tests to be performed.
- (b) Assessed inherent and control risks; and determined the combined risk.
- (c) Summarized the risk assessment for audit assertions in the working paper during the audit planning stage.
- (d) Evaluated the control environment, the adequacy of the accounting systems, and control procedures.

This evaluation included the control systems for:

- (a) ensuring that charges to the program are properly and adequately supported;
- (b) managing cash on hand and in bank accounts;
- (c) procuring goods and services;
- (d) managing inventory and receiving functions;
- (e) managing personnel functions such as timekeeping, salaries, and benefits;
- (f) managing and disposing of commodities purchased either by the recipient or directly by MCC or MCA-Mongolia;
- (g) ensuring compliance with agreement terms and applicable laws and regulations that collectively have a material impact on the Fund Accountability Statement. Specifically, evaluate compliance with the Procurement Agreement and Procurement Guidelines and the Fiscal Accountability Plan.

Compliance with Agreement Terms and Applicable Laws and Regulations

In fulfilling the audit requirement to determine compliance with agreement terms and applicable laws and regulations related to donor activities, we, at a minimum, followed guidance contained in AICPA SAS No. 122 (AU-C sec 935) *Compliance Audits*.

To achieve the objective set out in terms of reference, we reviewed the following documents and agreements applicable to MCA-Mongolia to obtain an understanding of the program and identify key areas of compliance with MCC audit guidelines and other applicable regulations as required by the Compact:

Governing Agreements:

- Millennium Challenge Compact Agreement (Compact)
- Program Implementation Agreement
- Grant and Implementation Agreement

Supplementary Agreements:

- Fiscal Agent Agreement between MCA-Mongolia and Cardno Emerging Markets USA, Ltd
- Procurement Agent Agreement between MCA-Mongolia and Charles Kendall and Partners Ltd
- Bank Agreement between MCA-Mongolia and Trade and Development Bank

Implementation Entity Agreements:

- Water Supply and Sewerage Authority (USUG)
- Land Management Department of Capital City
- National Statistical Office (NSO)
- Water Services Regulatory Commission (WSRC)

MCC Guidelines:

- MCC Guidelines for Country Contributions
- MCC Environmental Guidelines
- MCC Program Guidelines
- MCC Program Procurement Guidelines
- MCC Accountable Entities Guidelines for Contracted Financial Audits
- MCC Gender policy
- MCC Gender Integration Guidelines
- MCC Cost principles for Government Affiliates involved in Compact implementation
- MCC Reporting Guidelines
- MCC Program Closure Guidelines
- MCC Guidelines For Accountable Entities and Implementation Structures
- MCC M&E Policy
- MCC Guidelines for Economic and Beneficiary Analysis
- MCC Standards for Global Marking

MCA-Mongolia plans, reports, and other documents developed for the Compact implementation:

- Work Plan (WP)
- Multi-Year Financial Plan (MYFP)
- Audit Plan (AP)
- Procurement Plan (PP)
- M&E Plan
- Interim Fiscal Accountability Plan
- Fiscal Accountability Plan (FAP)
- Interim Procurement Operations Manual
- Procurement Operations Manual (POM)
- Contract Administration & Management Manual (CAMM)
- Implementation Plan (IP)
- Social and gender integration Plan
- Indicator Tracking Table (ITT)
- Human Resources Manual (HRM)
- Action Plan for Preventing, Detecting and Remediating Fraud and Corruption
- Code of Business Ethics and Standards of Conduct
- Internal audit charter

- Internal audit manual
- Bid challenge system
- MCA-Mongolia Charter (State Owned Entity)
- Board resolutions, meeting minutes
- CEO Orders

2.3 Audit procedures performed

The audit team conducted the following audit procedures included in the audit planning document.

- Audit program for Fund Accountability Statement
- Audit program for Internal Control
- Audit program for Compliance
- Audit program for Procurement
- Audit program for Fraud and illegal acts/abuse
- Audit program for assessing IS controls over financial reporting
- Audit program for Covered Providers
- Audit program for Common Payment System
- Audit program for Related Parties
- Audit program for Prior audit recommendations

2.4 Scope limitation

There was no limitation on the scope of the audit.

2.5 GAGAS departures

In Mongolia, we do not have a continuing education program that fully satisfies the requirement set forth in Chapter 4, paragraph 4.16 of U.S. Government Auditing Standards. However, our auditors must attend the 20 hours of continuing education and training from MICPA every year. We are taking appropriate steps to implement a continuing education program that fully satisfies the requirement.

We did not have an external quality control review by an unaffiliated audit organization as required in Chapter 5, paragraph 5.60 of U.S. Government Auditing Standards, since no such program is offered by MICPA. We believe that the effect of this departure from Government Auditing Standards is not significant because we participate in the Baker Tilly International worldwide internal quality control review program, which requires our office to be subjected, every three years, to an extensive quality control review by partners and managers from other affiliate offices.

3. SUMMARY OF AUDIT RESULTS AND MANAGEMENT ACTIONS

3.1 Audit Findings on the FAS for CDF for the audit period from April 1, 2021 to October 31, 2021; FAS for CFF for the audit period from April 1, 2021 to March 31, 2022 and FAS for CF for the audit period from April 1, 2021 to March 31, 2022

Our audit has not identified any questioned costs on the Fund Accountability Statement for CDF for the audit period from April 1, 2021 to October 31, 2021; Fund Accountability Statement for CFF for the audit period from April 1, 2021 to March 31, 2022 and Fund Accountability Statement for CF for the audit period from April 1, 2021 to March 31, 2022.

3.2 Audit Findings on MCA-Mongolia's Internal control over Financial Reporting

The table shows the audit findings from our review of MCA-Mongolia's Internal Control over Financial Reporting.

Audit findings	Material weakness or significant deficiency	Page
Internal control related		
The acceptance memo, which states review and receipt of the contractor's progress report, was not issued	significant deficiency	33
The quality and performance of the contract made by the administration department have not been concluded and documented	significant deficiency	34
Absence of a Comprehensive Information Security Policy	significant deficiency	35
Absence of a Formal Vulnerability Management Program	significant deficiency	36
Absence of a Change Management Process	significant deficiency	37
Absence of Backup Restoration Testing	significant deficiency	38
Absence of Business Continuity and Disaster Recovery (BC/DR) Plans	significant deficiency	39

3.3 Audit Findings on MCA-Mongolia's Compliance with the agreement terms, applicable laws, and regulations

The table shows the audit findings arising from our review of MCA-Mongolia's Compliance with the agreement terms, applicable laws, and regulations.

Audit findings	Material or immaterial	Page
Compliance with agreements and applicable laws and regulations		
The provisions of non-discrimination against employees do not include certain conditions	Material	40
About Gender discrimination and its different regulation	Material	41
The amount of termination benefits is not in accordance with the revised Labor Law	Material	42
Inadequate definition of "workplace" in the anti-sexual harassment policy	Material	43
"Grievance Procedure" does not meet the requirements of the revised Labor Law	Material	44
The provision of the employment agreement about working overtime at no additional compensation is not in accordance with the revised Labor Law	Material	45
The term of non-compete obligations specified in employment agreements is not in accordance with the revised Labor Law	Material	46
Missing work condition of each position on Employment agreement template - Repeated audit finding	Material	47
Discriminated approach to pay overtime compensation and add a clause on overtime pay to the employment agreement template - Repeated audit finding	Material	48
HR manual states that one month salary to be provided to the redundant employee in lieu of notice period - Repeated audit finding	Material	49

3.4 Management view on the audit results

During the past five months, MCA-Mongolia management worked collaboratively and efficiently with the external auditors.

We hope that MCA-Mongolia management comments on audit findings help provide our perspective on the matters raised and illustrate the successful implementation of the auditor's recommendations.

MCA-Mongolia appreciates the constructive feedback and supports Baker Tilly Dalaivan Audit provided over the audit period. In the future, MCA-Mongolia will continue to foster mutually productive yet independent relationships between MCA-Mongolia and our external auditor Baker Tilly Dalaivan Audit LLC.

MCA-Mongolia management is confident that its policies, procedures, and staff will succeed in delivering the results of Compact implementation while ensuring effective control mechanisms.



BAKER TILLY

DALAIVAN AUDIT

Audit assurance, property and business
valuation advisory services

Amarsanaa street-5, Bayangol district
Ulaanbaatar-16066, Mongolia
Phones:70005401, 70005404,70005405
Fax:+976-70005403
E-mail:info@btdalaivanaudit.mn
Web site: www.btdalaivanaudit.mn

INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED FUND ACCOUNTABILITY STATEMENT

Board of Directors of MCA-Mongolia
Millennium Challenge Account-Mongolia
Floor 5, MPM Complex,
UNESCO Street, Sukhbaatar District,
Ulaanbaatar, Mongolia

Report on the Financial Statements

We have audited the accompanying Consolidated Fund Accountability Statement of MCA-Mongolia and related notes to the Consolidated Fund Accountability Statement for the audit period from April 1, 2021 to March 31, 2022 and have issued our report on it dated September 12, 2022.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the Fund Accountability Statements in accordance with the United States generally accepted accounting principles (GAAP) or other comprehensive basis of accounting; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of the Fund Accountability Statement that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Fund Accountability Statement based on our audit. Except as discussed in the following paragraphs, we conducted our audit in accordance with Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free of material misstatement.

In Mongolia, we do not have a continuing education program that fully satisfies the requirement set forth in Chapter 4, paragraph 4.16 of Government Auditing Standards. However, our auditors must attend the 20 hours of continuing education and training from MICPA every year. We are taking appropriate steps to implement a continuing education program that fully satisfies the requirement.

We did not have an external Quality Control Review (QCR) by an unaffiliated audit organization, as required in Chapter 5, paragraph 5.60 of Government Auditing Standards, since no such program is offered by MICPA. We believe that the effect of this departure from Government Auditing Standards is not material because we participate in the Baker Tilly International worldwide internal quality control review program that requires our office to be subjected, every three years, to an extensive quality control review by partners and managers from other affiliate offices.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Fund Accountability Statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Fund Accountability Statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Fund Accountability Statement 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Fund Accountability Statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Fund Accountability Statements for the audit period from April 1, 2021 to March 31, 2022 present fairly, in all material respects, program revenues, costs incurred and reimbursed, and assets and technical assistance directly procured by Millennium Challenge Corporation (MCC) for the year then ended in accordance with the terms of the agreements and in conformity with the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our reports dated September 12, 2022, on our consideration of MCA-Mongolia's Internal Control Over Financial Reporting (ICOFR) and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of ICOFR and compliance and the results of that testing, not to provide an opinion on the effectiveness of MCA-Mongolia's ICOFR or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this Independent Auditor's Report in considering the results of our audit.

This report is intended for the information of MCA-Mongolia and MCC. However, upon release by MCC, this report is a matter of public record, and its distribution is not limited.

Baker Tilly Dalaivan Audit LLC

Baker Tilly Dalaivan Audit LLC

September 12, 2022

4.1 Consolidated Fund Accountability Statement of MCA-Mongolia for the audit period from April 1, 2021 to March 31, 2022 (CDF, CFF and CF)

(All amounts are expressed in US\$)

	Budget	Prior period	Current Period Apr 1, 2021 to Mar 31, 2022	Cumulative to Mar 31, 2022	Questioned cost		Note #
					Ineligible	Unsupported	
Revenues received:							
Receipts from MCC		25,529,988.56	30,060,645.30	55,590,633.86			2
Total revenue		25,529,988.56	30,060,645.30	55,590,633.86			
Costs incurred:							
Water Sector Infrastructure	309,689,204.95	17,641,620.74	25,369,125.39	43,010,746.13			4
Downstream Wells	275,720,451.61	17,350,508.72	22,436,270.26	39,786,778.98			4.1
Wastewater Recycling	13,968,753.34	0.00	2,695,526.94	2,695,526.94			4.2
Water Sector Sustainability	20,000,000.00	291,112.02	237,328.19	528,440.21			4.3
Monitoring and Evaluation	10,330,000.00	0.00	0.00	0.00			
M&E	10,330,000.00	0.00	0.00	0.00			
Program Administration	33,505,945.05	7,772,772.52	4,584,400.28	12,357,172.80			5
Program administration	20,017,844.11	4,471,339.07	2,872,432.16	7,343,771.23			5.1
Fiscal Management	6,079,525.94	1,897,272.45	745,789.12	2,643,061.57			5.2
Procurement Management	6,662,575.00	1,404,161.00	870,179.00	2,274,340.00			5.3
Audit	746,000.00	0.00	96,000.00	96,000.00			5.4
Total cost	353,525,150.00	25,414,393.26	29,953,525.67	55,367,918.93			
Surplus (excess of revenue over costs incurred) / (Deficit)		115,595.30	107,119.63	222,714.93			
Fund balance at the beginning		0.00	115,595.30	0.00			
Fund balance at the end		115,595.30	222,714.93	222,714.93			6

Attested by: Chief Operating Officer



D. Khulan

Date: September 12, 2022

Director, Finance



G. Uranchimeg


Date: September 12, 2022

4.2 CDF Fund Accountability Statement of MCA-Mongolia for the audit period from April 1, 2021 to October 31, 2021

(All amounts are expressed in US\$)

	Budget	Prior period	Current Period Apr 1, 2021 to Oct 31, 2021	Cumulative to Oct 31, 2021	Questioned cost		Note #
					Ineligible	Unsupported	
Revenues received:							
Receipts from MCC		2,741,044.77	784,105.23	3,525,150.00			2
Total revenue		2,741,044.77	784,105.23	3,525,150.00			
Costs incurred:							
Water Sector Infrastructure	0.00	0.00	0.00	0.00			
Downstream Wells	0.00	0.00	0.00	0.00			
Wastewater Recycling	0.00	0.00	0.00	0.00			
Water Sector Sustainability	0.00	0.00	0.00	0.00			
Monitoring and Evaluation	0.00	0.00	0.00	0.00			
M&E	0.00	0.00	0.00	0.00			
Program Administration	3,525,150.00 ¹	2,741,044.77	784,105.23	3,525,150.00			7
Program administration	1,232,722.74	701,277.33	531,445.41	1,232,722.74			7.1
Fiscal Management	1,299,986.26	1,175,870.44	124,115.82	1,299,986.26			7.2
Procurement Management	992,441.00	863,897.00	128,544.00	992,441.00			7.3
Audit	0.00	0.00	0.00	0.00			
Total cost	3,525,150.00	2,741,044.77	784,105.23	3,525,150.00			
Surplus (excess of revenue over costs incurred) / (Deficit)		0.00	0.00	0.00			
Fund balance at the beginning		0.00	0.00	0.00			
Fund balance at the end		0.00	0.00	0.00			6

¹The CDF budget shows the Government managed funds of US\$3,525,150, which is subject to the financial audit of MCA-Mongolia. As of October 31, 2021, the CDF spending was fully completed.

Attested by: Chief Operating Officer  D. Khulan

Date: September 12, 2022

Director, Finance

G. Uranchimeg

Date: September 12, 2022

4.3 CFF Fund Accountability Statement of MCA-Mongolia for the audit period from April 1, 2021 to March 31, 2022
 (All amounts are expressed in US\$)

	Budget	Prior period	Current Period Apr 1, 2021 to Mar 31, 2022	Cumulative to Mar 31, 2022	Questioned cost		Note #
					Ineligible	Unsupported	
Revenues received:							
Receipts from MCC		22,788,943.79	2,970,145.92	25,759,089.71			2
Total revenue		22,788,943.79	2,970,145.92	25,759,089.71			
Costs incurred:							
Water Sector Infrastructure	20,823,590.46	17,641,620.74	1,177,017.60	18,818,638.34			8
Downstream Wells	19,984,727.10	17,350,508.72	910,985.48	18,261,494.20			8.1
Wastewater Recycling	29,053.13	0.00	29,053.13	29,053.13			8.2
Water Sector Sustainability	809,810.23	291,112.02	236,978.99	528,091.01			8.3
Monitoring and Evaluation	0.00	0.00	0.00	0.00			
M&E	0.00	0.00	0.00	0.00			
Program Administration	7,236,409.54	5,031,727.75	1,851,966.25	6,883,694.00			9
Program administration	5,878,743.53	3,770,061.74	1,755,966.25	5,526,027.99			9.1
Fiscal Management	721,402.01	721,402.01	0.00	721,402.01			9.2
Procurement Management	540,264.00	540,264.00	0.00	540,264.00			9.3
Audit	96,000.00	0.00	96,000.00	96,000.00			9.4
Total cost	28,060,000.00	22,673,348.49	3,028,983.85	25,702,332.34			
Surplus (excess of revenue over costs incurred) / (Deficit)		115,595.30	(58,837.93)	56,757.37			10
Fund balance at the beginning		0.00	115,595.30	0.00			
Fund balance at the end		115,595.30	56,757.37	56,757.37			6

Attested by: Chief Operating Officer

D.Khulan

Date: September 12, 2022

Director, Finance

G.Uranchimeg

Date: September 12, 2022

4.4 CF Fund Accountability Statement of MCA-Mongolia for the audit period from April 1, 2021 to March 31, 2022

(All amounts are expressed in US\$)

	Budget	Prior period	Current Period April 1, 2021 to Mar 31, 2022	Cumulative to Mar 31, 2022	Questioned cost		Note #
					Ineligible	Unsupported	
Revenues received:							
Receipts from MCC		0.00	26,306,394.15	26,306,394.15			2
Total revenue		0.00	26,306,394.15	26,306,394.15			
Costs incurred:							
Water Sector Infrastructure	288,865,614.49	0.00	24,192,107.79	24,192,107.79			11
Downstream Wells	255,735,724.51	0.00	21,525,284.78	21,525,284.78			11.1
Wastewater Recycling	13,939,700.21	0.00	2,666,473.81	2,666,473.81			11.2
Water Sector Sustainability	19,190,189.77	0.00	349.20	349.20			11.3
Monitoring and Evaluation	10,330,000.00	0.00	0.00	0.00			
M&E	10,330,000.00	0.00	0.00	0.00			
Program Administration	22,744,385.51	0.00	1,948,328.80	1,948,328.80			12
Program administration	12,906,377.84	0.00	585,020.50	585,020.50			12.1
Fiscal Management	4,058,137.67	0.00	621,673.30	621,673.30			12.2
Procurement Management	5,129,870.00	0.00	741,635.00	741,635.00			12.3
Audit	650,000.00	0.00	0.00	0.00			
Total cost	321,940,000.00	0.00	26,140,436.59	26,140,436.59			
Surplus (excess of revenue over costs incurred) / (Deficit)		0.00	165,957.56	165,957.56			
Fund balance at the beginning		0.00	0.00	0.00			
Fund balance at the end		0.00	165,957.56	165,957.56			6

Attested by: Chief Operating Officer

D.Khulan

Date: September 12, 2022

Director, Finance

G.Uranchimeg

Date: September 12, 2022

Notes to the Consolidated Fund Accountability Statement

1. Significant Accounting Policies

The significant accounting policies MCA-Mongolia adopted in preparing the Fund Accountability Statement are set out below.

1.1. Preparation of Fund Accountability Statement and other supplemental schedules

The Fund Accountability Statement for the reporting period has been prepared under the modified cash basis. Under this basis, revenues are recognized when cash is received, and expenses are recognized when cash is paid out. In addition, apart from the Fund Accountability Statement, the following supplemental schedules are prepared monthly for CFF and CF funding.

- i. Advance payments outstanding
- ii. Amounts payable to vendors or retained from vendor payments

1.2. Revenue

Revenue consists of MCC Grant contributions that are disbursed by one of the following methods:

- Transferred directly from the U.S. Treasury to the vendors of goods, works, and services received by MCA-Mongolia. The Common Payment System is used to process payments in US\$ or local currency; and
- Disbursed by the Common Payment System into Permitted Accounts at a local bank, where the funds are subsequently disbursed from the local bank accounts to pay vendors or other payees.

The interest earned on the MCC Funding is held in the Accrued Interest accounts (two bank accounts in US\$ and two in MNT) opened for CFF and CF sources at the Trade and Development Bank. All accrued interest is transferred to MCC quarterly.

1.3. Cost

All expenditures are recognized in the accounting records when actual cash is paid out.

1.4. Currency conversion

Receipts from MCC are dominated in US\$ and deposited into the Permitted Account (US\$) at the Trade and Development Bank. For the funds transferred between the Permitted accounts, the amount will be booked using the prevailing exchange rate at which the Trade and Development Bank converts the funds into the local currency. For transactions incurred in any currency other than US\$ and which are paid directly through the Common Payment System (CPS), the conversion rate will be the actual exchange rate at which funds were disbursed by Interior Business Center (IBC). For transactions incurred in any currency other than US\$ and which are paid through the Permitted Account (MNT), the conversion rate will be the previous day's closing exchange rate of the Central Bank of Mongolia. For non-US\$ payment transactions handled via CPS, the actual translation rate of the CPS payment is used by posting the payment entries. Any realized gains and losses with the financial transaction are charged to the same account and budget codes as the underlying transaction.

At the end of each month, the US\$ equivalent of the balances of all non-US\$ cash and bank accounts are to be adjusted according to the closing exchange rate published on that date by the Central Bank of Mongolia, with differences recognized in the books of accounts. At the end of the reporting period, the ending balances of cash and cash equivalents denominated in any currency other than US\$ have converted into US\$ balances at the closing rate of MNT 2,948.46.

1.5 Purchase of fixed assets

The fixed assets acquired with MCC Grant funds are expensed immediately without being capitalized. However, fixed assets with a value of at least US\$500 and a lifetime of over twelve calendar months are recorded in a Fixed Asset Register for physical control purposes. The goods with a unit value or a group value of more than US\$500 and useful life of more than twelve months are defined as fixed assets and registered in the Fixed Asset Register.

2. Receipts from MCC (All amounts are expressed in US\$)

	CDF (2017.05.03- 2021.10.31)	CFF (2018.07.27- 2022.03.31)	CF (2021.04.01- 2022.03.31)	Cumulative to 2022.03.31
IBC/Banks in US	1,918,810.06	19,516,933.17	8,171,833.44	29,607,576.67
IBC/Banks outside US/US\$	1,164,578.42	5,501,873.98	17,948,972.70	24,615,425.10
IBC/Banks outside US/non-US\$	441,761.52	740,282.56	185,588.01	1,367,632.09
Total	<u>3,525,150.00</u>	<u>25,759,089.71</u>	<u>26,306,394.15</u>	<u>55,590,633.86</u>

3. Interest earned on MCC-provided funds (All amounts are expressed in US\$)

	CFF (2018.07.27- 2022.03.31)	CF (2021.04.01- 2022.03.31)	Cumulative to 2022.03.31
Permitted account (US\$) – Interest earned	1,107.98	0.00	1,107.98
Permitted account (US\$) – Interest transferred to MCC	(1,107.98)	0.00	(1,107.98)
Total	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>

	CFF (2018.07.27- 2022.03.31)	CF (2021.04.01- 2022.03.31)	Cumulative to 2022.03.31
Permitted account (MNT) – Interest earned	0.00	0.00	0.00
Permitted account (MNT) – Interest transferred to MCC	0.00	0.00	0.00
Total	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>

Per Government's measures in response to the Covid-19 pandemic, all commercial banks dis-continued to determine interest income on the current account from April 29, 2020. Therefore, interest revenue was not imposed on the MCA-Mongolia's Permitted accounts during the reporting period.

4. Water Sector Infrastructure (All amounts are expressed in US\$)**4.1 Downstream Wells Activity**

	CFF (2018.07.27- 2022.03.31)	CF (2021.04.01- 2022.03.31)	Cumulative to 2022.03.31
Detailed Design Firm for Downstream Wellfields	14,557,683.82	0.00	14,557,683.82
WSP PMC Consulting & Construction Supervisory Services	3,558,864.00	4,960,264.66	8,519,128.66
RAP implementation support services, Resettlement compensation	55,032.75	430,743.12	485,775.87
CP2 TEP Member Expenses	61,977.25	0.00	61,977.25
CP3 TEP Member Expenses	27,840.00	0.00	27,840.00
MCUD working group site visit	96.38	810.66	907.04
Supply of Site Assessment Equipment for Engineers	0.00	4,690.00	4,690.00
Construction Works of an Advanced Water Purification Plant (AWPP) and SCADA Controls	0.00	16,120,887.70	16,120,887.70
Biodiversity expert: CO/MCA-M/ICS/014	0.00	7,888.64	7,888.64
Total	<u>18,261,494.20</u>	<u>21,525,284.78</u>	<u>39,786,778.98</u>

4.2. Wastewater Recycling Activity

	CFF (2018.07.27- 2022.03.31)	CF (2021.04.01- 2022.03.31)	Cumulative to 2022.03.31
TEP cost/Consultancy service	29,053.13	0.00	29,053.13
Consulting Service for Program Management Consultant and Construction Supervisor (PMC)	0.00	2,012,947.69	2,012,947.69
Meeting Venue and catering services	0.00	766.12	766.12
Detailed Design for Conveyance System and Modification Works at CHPP#3 & #4,	0.00	652,760.00	652,760.00
Total	<u>29,053.13</u>	<u>2,666,473.81</u>	<u>2,695,526.94</u>

4.3. Water Sector Sustainability Activity

	CFF (2018.07.27- 2022.03.31)	CF (2021.04.01- 2022.03.31)	Cumulative to 2022.03.31
Technical Assistance for CRP development & implementation	166,783.25	0.00	166,783.25
IEA - National Statistics Office of Mongolia	54,514.95	0.00	54,514.95
IEA MCA Executing - Local Consultants	14,129.26	0.00	14,129.26
IEA MCA Executing - Implementation Cost	17,734.55	0.00	17,734.55
TEP Members	12,663.09	0.00	12,663.09
CRP development - Individual Consultants sub-activity	19,849.68	0.00	19,849.68
CRP development - Stakeholder Workshops	1,344.93	0.00	1,344.93
CRP development - Training sub-activity	6,815.26	0.00	6,815.26
Consulting Services for The Cost Recovery Technical Assistance for Sustainability	233,496.55	0.00	233,496.55
Catering Services	759.49	0.00	759.49
CRTA stakeholder meeting	0.00	349.20	349.20
Total	<u>528,091.01</u>	<u>349.20</u>	<u>528,440.21</u>

5. Program Administration (All amounts are expressed in US\$)

5.1. Program administration

	CDF (2017.05.03- 2021.10.31)	CFF (2018.07.27- 2022.03.31)	CF (2021.04.01- 2022.03.31)	Cumulative to 2022.03.31
Detailed Design TEP	69,693.71	0.00	0.00	69,693.71
Office lease and Preparation	330,091.33	0.00	0.00	330,091.33
Office Architect	49,850.32	0.00	0.00	49,850.32
Iron Vine	53,000.00	0.00	0.00	53,000.00
National Secretariat Payroll	80,050.92	0.00	0.00	80,050.92
MCA-Mongolia set up expenses	548,923.58	0.00	0.00	548,923.58
MCA-Mongolia vehicles	99,612.88	0.00	0.00	99,612.88
CEO Admin support/IT Support	1,500.00	0.00	0.00	1,500.00
HR Management	0.00	3,310,123.40	0.00	3,310,123.40
Office Premises Management	0.00	977,531.39	1,491.81	979,023.20
Office Equipment and Systems	0.00	882,318.42	574,655.61	1,456,974.03
Office Supplies and Materials	0.00	90,110.87	471.64	90,582.51
Telecommunications	0.00	96,236.53	0.00	96,236.53
Transportation	0.00	8,217.15	0.00	8,217.15
Media and Public Relations	0.00	81,420.41	8,401.44	89,821.85
Professional Service	0.00	80,069.82	0.00	80,069.82
Total	<u>1,232,722.74</u>	<u>5,526,027.99</u>	<u>585,020.50</u>	<u>7,343,771.23</u>

5.2. Fiscal management

	CDF (2017.05.03- 2021.10.31)	CFF (2018.07.27- 2022.03.31)	CF (2021.04.01- 2022.03.31)	Cumulative to 2022.03.31
Fiscal Agent fees	1,241,158.28	721,402.01	621,673.30	2,584,233.59
Fiscal Agent related advertising	13,845.16	0.00	0.00	13,845.16
Fiscal Agent TEP	44,982.82	0.00	0.00	44,982.82
Total	<u>1,299,986.26</u>	<u>721,402.01</u>	<u>621,673.30</u>	<u>2,643,061.57</u>

5.3. Procurement management

	CDF (2017.05.03- 2021.10.31)	CFF (2018.07.27- 2022.03.31)	CF (2021.04.01- 2022.03.31)	Cumulative to 2022.03.31
Procurement Agent fees	992,441.00	540,264.00	741,635.00	2,274,340.00
Total	<u>992,441.00</u>	<u>540,264.00</u>	<u>741,635.00</u>	<u>2,274,340.00</u>

5.4. Audit

	CDF (2017.05.03- 2021.10.31)	CFF (2018.07.27- 2022.03.31)	CF (2021.04.01- 2022.03.31)	Cumulative to 2022.03.31
Audit fee	0.00	96,000.00	0.00	96,000.00
Total	<u>0.00</u>	<u>96,000.00</u>	<u>0.00</u>	<u>96,000.00</u>

6. Fund balance/reconciling items (All amounts are expressed in US\$)

	CDF (2017.05.03- 2021.10.31)	CFF (2018.07.27- 2022.03.31)	CF (2021.04.01- 2022.03.31)	Cumulative to 2022.03.31
Permitted Account (USD)	0.00	51,538.21	165,500.55	217,038.76
Debit Card (USD)	0.00	996.40	0.00	996.40
Permitted Account (MNT)	0.00	2,526.96	425.54	2,952.50
Cash in Transit (MNT)	0.00	867.26	31.47	898.73
Petty Cash Debit Card (MNT)	0.00	705.06	0.00	705.06
Fuel Debit Card (MNT)	0.00	123.48	0.00	123.48
Total	<u>0.00</u>	<u>56,757.37</u>	<u>165,957.56</u>	<u>222,714.93</u>

The US\$ 867.26 (CFF) and US\$31.47 (CF) (equals to MNT 2,557,075.68 and MNT 92,000.00) were transferred from Petty Cash Debit Card (MNT) to the Permitted Account (MNT) on March 31, 2022, and reported as Cash-in-Transit.

7. CDF – Program Administration (All amounts are expressed in US\$)

7.1 Program administration

	Prior period (2017.05.03- 2021.03.31)	Current period 2021.04.01- 2021.10.31)	Cumulative to 2021.10.31
Detailed Design TEP	69,693.71	0.00	69,693.71
Office lease and Preparation	330,091.33	0.00	330,091.33
Office Architect	48,974.39	875.93	49,850.32
Iron Vine	53,000.00	0.00	53,000.00
National Secretariat Payroll	80,050.92	0.00	80,050.92
MCA-Mongolia set up expenses	18,354.10	530,569.48	548,923.58
MCA-Mongolia vehicles	99,612.88	0.00	99,612.88
CEO Admin support/IT Support	1,500.00	0.00	1,500.00
Total	<u>701,277.33</u>	<u>531,445.41</u>	<u>1,232,722.74</u>

7.2 Fiscal management

	Prior period (2017.05.03- 2021.03.31)	Current period 2021.04.01- 2021.10.31)	Cumulative to 2021.10.31
Fiscal Agent fees	1,117,042.46	124,115.82	1,241,158.28
Fiscal Agent related advertising	15,015.16	0.00	13,845.16
Fiscal Agent TEP	43,812.82	0.00	44,982.82
Total	<u>1,175,870.44</u>	<u>124,115.82</u>	<u>1,299,986.26</u>

7.3. Procurement management

	Prior period (2017.05.03- 2021.03.31)	Current period (2021.04.01- 2021.10.31)	Cumulative to 2021.10.31
Procurement Agent fees	863,897.00	128,544.00	992,441.00
Total	<u>863,897.00</u>	<u>128,544.00</u>	<u>992,441.00</u>

8. CFF - Water Sector Infrastructure (All amounts are expressed in US\$)

8.1 Downstream Wells Activity

	Prior period (2018.07.27- 2021.03.31)	Current period (2021.04.01- 2022.03.31)	Cumulative to 2022.03.31
Detailed Design Firm for Downstream Wellfields	13,763,773.72	793,910.10	14,557,683.82
WSP PMC Consulting & Construction Supervisory Services	3,558,864.00	0.00	3,558,864.00
RAP implementation support services, Resettlement Compensation	0.00	55,032.75	55,032.75
CP2 TEP Member Expenses	23,231.00	38,746.25	61,977.25
CP3 TEP Member Expenses	4,640.00	23,200.00	27,840.00
MCUD working group site visit	0.00	96.38	96.38
Total	<u>17,350,508.72</u>	<u>910,985.48</u>	<u>18,261,494.20</u>

8.2 Wastewater Recycling Activity

	Prior period (2018.07.27- 2021.03.31)	Current period (2021.04.01- 2022.03.31)	Cumulative to 2022.03.31
TEP cost/ Consultancy service	0.00	29,053.13	29,053.13
Total	<u>0.00</u>	<u>29,053.13</u>	<u>29,053.13</u>

8.3 Water Sector Sustainability Activity

	Prior period (2018.07.27- 2021.03.31)	Current period (2021.04.01- 2022.03.31)	Cumulative to 2022.03.31
Technical Assistance for CRP development & implementation	166,783.25	0.00	166,783.25
IEA - National Statistics Office of Mongolia	51,792.00	2,722.95	54,514.95
IEA MCA Executing - Local Consultants	14,129.26	0.00	14,129.26
IEA MCA Executing - Implementation Cost	17,734.55	0.00	17,734.55
TEP Members	12,663.09	0.00	12,663.09
CRP development - Individual Consultants sub-activity	19,849.68	0.00	19,849.68
CRP development - Stakeholder Workshops	1,344.93	0.00	1,344.93
CRP development - Training sub-activity	6,815.26	0.00	6,815.26
Consulting Services for The Cost Recovery	0.00	233,496.55	233,496.55
Technical Assistance for Sustainability	0.00	759.49	759.49
Catering Services	0.00	759.49	759.49
Total	<u>291,112.02</u>	<u>236,978.99</u>	<u>528,091.01</u>

9. CFF – Program administration (All amounts are expressed in US\$)

9.1 Program administration

	Prior period (2018.07.27- 2021.03.31)	Current period (2021.04.01- 2022.03.31)	Cumulative to 2022.03.31
HR Management	2,017,342.64	1,292,780.76	3,310,123.40
Office Premises Management	690,971.40	286,559.99	977,531.39
Office Equipment and Systems	848,476.01	33,842.41	882,318.42
Office Supplies and Materials	25,924.88	64,185.99	90,110.87
Telecommunications	64,616.65	31,619.88	96,236.53
Transportation	2,372.27	5,844.88	8,217.15
Media and Public Relations	40,639.69	40,780.72	81,420.41
Professional Service	79,718.20	351.62	80,069.82
Total	<u>3,770,061.74</u>	<u>1,755,966.25</u>	<u>5,526,027.99</u>

9.2 Fiscal Management

	Prior period (2018.07.27- 2021.03.31)	Current period (2021.04.01- 2022.03.31)	Cumulative to 2022.03.31
Fiscal Agent fees	721,402.01	0.00	721,402.01
Total	<u>721,402.01</u>	<u>0.00</u>	<u>721,402.01</u>

9.3 Procurement management

	Prior period (2018.07.27- 2021.03.31)	Current period (2021.04.01- 2022.03.31)	Cumulative to 2022.03.31
Procurement Agent fees	540,264.00	0.00	540,264.00
Total	<u>540,264.00</u>	<u>0.00</u>	<u>540,264.00</u>

9.4 Audit

	Prior period (2018.07.27- 2021.03.31)	Current period (2021.04.01- 2022.03.31)	Cumulative to 2022.03.31
Audit fee	0.00	96,000.00	96,000.00
Total	<u>0.00</u>	<u>96,000.00</u>	<u>96,000.00</u>

10. CFF – Surplus /(Deficit) (All amounts are expressed in US\$)

<u>Period</u>	<u>Receipts from MCC</u>	<u>Costs incurred</u>	<u>Surplus/(Deficit)</u>
Apr 2021	144,500.00	112,033.38	32,466.62
May 2021*	132,946.25	188,521.50	(55,575.25)
June 2021	1,079,418.37	1,040,039.17	39,379.20
July 2021*	208,269.95	230,587.08	(22,317.13)
Aug 2021	143,400.00	138,118.97	5,281.03
Sep 2021	155,800.00	149,348.70	6,451.30
Oct 2021	219,750.00	205,202.44	14,547.56
Nov 2021	215,811.10	173,480.58	42,330.52
Dec 2021*	243,875.88	286,976.33	(43,100.45)
Jan 2022*	49,516.24	161,681.33	(112,165.09)
Feb 2022	199,263.71	164,691.25	34,572.46
Mar 2022*	177,594.42	178,303.12	(708.70)
Total	<u>2,970,145.92</u>	<u>3,028,983.85</u>	<u>(58,837.93)</u>

*The period's excess cost over revenue is due to the availability of the Permitted Account balance at the beginning of the period.

11. CF - Water Sector Infrastructure (All amounts are expressed in US\$)

11.1 Downstream Wells

	<u>Prior period</u>	<u>Current period (2021.05.01-2022.03.31)</u>	<u>Cumulative to 2022.03.31</u>
WSP PMC Consulting & Construction Supervisory Services	0.00	4,960,264.66	4,960,264.66
RAP implementation support services, Resettlement Compensation	0.00	430,743.12	430,743.12
MCUD working group site visit	0.00	810.66	810.66
Supply of Site Assessment Equipment for Engineers	0.00	4,690.00	4,690.00
Construction Works of an Advanced Water Purification Plant (AWPP) and Scada Controls	0.00	16,120,887.70	16,120,887.70
Biodiversity expert: CO/MCA-M/ICS/014	0.00	7,888.64	7,888.64
Total	<u>0.00</u>	<u>21,525,284.78</u>	<u>21,525,284.78</u>

11.2 Wastewater Recycling

	<u>Prior period</u>	<u>Current period (2021.05.01-2022.03.31)</u>	<u>Cumulative to 2022.03.31</u>
Consulting Service for Program Management Consultant and Construction Supervisor (PMC)	0.00	2,012,947.69	2,012,947.69
Meeting Venue and catering services	0.00	766.12	766.12
Detailed Design for Conveyance System and Modification Works at CHPP#3 & #4,	0.00	652,760.00	652,760.00
Total	<u>0.00</u>	<u>2,666,473.81</u>	<u>2,666,473.81</u>

11.3 Water Sector Sustainability

	<u>Prior period</u>	<u>Current period (2021.05.01- 2022.03.31)</u>	<u>Cumulative to 2022.03.31</u>
CRTA stakeholder meeting	0.00	349.20	349.20
Total	<u>0.00</u>	<u>349.20</u>	<u>349.20</u>

12. CF - Program Administration (All amounts are expressed in US\$)

12.1 Program administration

	<u>Prior period</u>	<u>2021.04.01- 2022.03.31</u>	<u>Cumulative to 2022.03.31</u>
Office Premises Management	0.00	1,491.81	1,491.81
Office Equipment and Systems	0.00	574,655.61	574,655.61
Office Supplies and Materials	0.00	471.64	471.64
Media and Public Relations	0.00	8,401.44	8,401.44
Total	<u>0.00</u>	<u>585,020.50</u>	<u>585,020.50</u>

12.2 Fiscal management

	<u>Prior period</u>	<u>2021.04.01- 2022.03.31</u>	<u>Cumulative to 2022.03.31</u>
Fiscal Agent fees	0.00	621,673.30	621,673.30
Total	<u>0.00</u>	<u>621,673.30</u>	<u>621,673.30</u>

12.3 Procurement management

	<u>Prior period</u>	<u>Current period (2021.05.01- 2022.03.31)</u>	<u>Cumulative to 2022.03.31</u>
Procurement Agent fees	0.00	741,635.00	741,635.00
Total	<u>0.00</u>	<u>741,635.00</u>	<u>741,635.00</u>



BAKER TILLY DALAIVAN AUDIT

Audit assurance, property and business
valuation advisory services

Amarsanaa street-5, Bayangol district
Ulaanbaatar-16066, Mongolia
Phones:70005401, 70005404,70005405
Fax:+976-70005403
E-mail:info@btdalaivanaudit.mn
Web site: www.btdalaivanaudit.mn

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters

Board of Directors of MCA-Mongolia
Millennium Challenge Account-Mongolia
Floor 5, MPM Complex,
UNESCO Street, Sukhbaatar District,
Ulaanbaatar, Mongolia

Except as discussed in the following paragraphs, we have audited in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Fund Accountability Statement of MCA-Mongolia for the audit period from April 1, 2021 to March 31, 2022, and have issued our report on it dated September 12, 2022.

In Mongolia, we do not have a continuing education program that fully satisfies the requirement set forth in Chapter 4, paragraph 4.16 of *Government Auditing Standards*. However, our auditors must attend the 20 hours of continuing education and training from MICPA every year. We are taking appropriate steps to implement a continuing education program that fully satisfies the requirement.

We did not have an external Quality Control Review (QCR) by an unaffiliated audit organization, as required in Chapter 5, paragraph 5.60 of *Government Auditing Standards*, since no such program is offered by MICPA. We believe that the effect of this departure from *Government Auditing Standards* is not material because we participate in the Baker Tilly International worldwide internal quality control review program that requires our office to be subjected, every three years, to an extensive quality control review by partners and managers from other affiliate offices.

Internal Control over Financial Reporting (ICOFR)

In planning and performing our audit of the financial statements, we considered MCA-Mongolia's ICOFR (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MCA-Mongolia's internal control. Accordingly, we do not express an opinion on the effectiveness of MCA-Mongolia's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of audit findings and questioned costs as items that we consider to be significant deficiencies.

We noted certain matters involving internal control and its operation that we have reported to the management of MCA-Mongolia in a separate letter dated September 12, 2022.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MCA-Mongolia's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of audit findings and questioned costs as items.

We noted certain immaterial instances of noncompliance that we have reported to the management of MCA-Mongolia in a separate letter dated September 12, 2022.

MCA-Mongolia's Response to Findings

MCA-Mongolia's response to the findings identified in our audit is described in the accompanying schedule of audit findings and questioned costs. MCA-Mongolia's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Tilly Dalaivan Audit LLC

Baker Tilly Dalaivan Audit LLC

September 12, 2022

5. SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

5.1 Summary of audit findings and questioned costs

<i>Fund Accountability Statement and Questioned costs</i>	
We issued the Unmodified opinion on the Consolidated Fund Accountability Statement of MCA-Mongolia for the audit period from April 1, 2021 to March 31, 2022. Our audit has not identified any questioned costs on the Fund Accountability Statement for CDF for the audit period from April 1, 2021 to October 31, 2021; Fund Accountability Statement for CFF for the audit period from April 1, 2021 to March 31, 2022 and Fund Accountability Statement for CF for the audit period from April 1, 2021 to March 31, 2022.	
<i>Internal control over Financial Reporting</i>	
Material weaknesses (a reasonable possibility that a material misstatement of FAS of MCA-Mongolia will not be prevented or detected on a timely basis)	No
Significant deficiency (less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of MCA-Mongolia)	7 identified
Immaterial deficiencies described in the Management Letter	11 identified
<i>Compliance and Other Matters</i>	
Material noncompliance	10 identified
Immaterial noncompliance described in the Management Letter	3 identified

5.2 Audit findings on Internal control

5.2.1 The acceptance memo, which states review and receipt of the contractor's progress report, was not issued

Type: Significant deficiency

Condition

We sampled a total of 9 contracts to ensure compliance with the contract management process of CMM. For example, during the period covered by the audit for the 'Program Management Consulting Services contract (NatSec/Proc/004)' with Tetra Tech Inc, MCA-Mongolia received four reports (three quarterly reports and one annual report) from the consultant. However, for those reports, the Contract Manager did not issue the Acceptance Memo ensuring that reports were reviewed for compliance with contract requirements in terms of time and quality, and accepted.

Criteria

MCA-Mongolia's CMM 3.3.2 states that "progress reports (deliverables) specified in the consulting services contract should be reviewed and documented in an Acceptance memo to ensure compliance with the relevant requirements." In addition, MCA-Mongolia FAP 3.5.3 states that the "Acceptance Memo confirms that the goods and services have been delivered or received in accordance with the terms of the contract."

Cause

The contract stipulates payment for some progress reports and no payment for others. The acceptance memo was only made for payment progress reports. But the acceptance memo in the non-payment progress report was not issued.

Effect

There is no evidence that the report submitted by consulting services and the contract manager reviewed the contract deliverables as required and accepted it.

Audit recommendation

As specified in the MCA-Mongolia's CMM, the Acceptance Memo must be produced for the receipt of a satisfactory level of service in accordance with the terms of the contract, regardless of whether or not it has a payment schedule.

Management response

MCA-Mongolia accepts the audit recommendation and will document the acceptance memo of progress reports or document acceptance of reports with the payments.

5.2.2 The quality and performance of the contract made by the administration department have not been concluded and documented

Type: Significant deficiency

Condition

MCA-Mongolia signed contracts for telephone, internet, office rent, car rental, cleaning service, and advertising for 12 to 36 months. However, the quality and performance of these contracts have not been concluded and documented.

Criteria

Chapter 3 of the CAMM states that sector directors must inspect goods, works, and services to ensure that the contract's requirements in terms of quality and timeliness are met.

Cause

When concluding the office lease contract, the administration director and office manager discussed the contract's quality; however, there was no the meeting minutes documented. Therefore, the administration team will ensure to document every meeting held for the purposes of discussing the contract requirements in terms of quality and timeliness.

Effect

There is no evidence that the quality of contract performance has been monitored and received as required.

Audit recommendation

These types of contracts have a short term and are automatically extended for one-year unless the parties propose to terminate the contract. Therefore, before extending the contract, it is necessary to review the quality of the contract performance and decide whether to extend it or not.

Management response

MCA-Mongolia accepts this recommendation.

5.2.3 Absence of a Comprehensive Information Security Policy

Type: Significant deficiency

Condition

It was noted that MCA-Mongolia has not developed and published a comprehensive information security policy. We noted that MCA-Mongolia developed the "Information Technology and Security Procedure" on November 12, 2019, and the coverage is limited only to personal use of the office equipment, computer user and network access, data backups, IT security responsibilities, third-party access, and data center access. This policy has not been revised since November 2019 publishing. Further, we noted the internet usage policy was also developed in November 2019.

Criteria

Comprehensive Information Security policies and procedures typically help organizations implement appropriate information security protection against unintentional or intentional internal/external information security threats. However, for such information security policies to be effective, these need to be approved by appropriate levels of management and communicated to the relevant staff.

Cause

Information security policy updates are underway, and the draft is planned to be completed this year.

Effect

In the absence of established and written comprehensive Information Security policies and procedures which are approved by management and implemented organization-wide, there will be no clear standards or guidelines to help ensure security controls are consistently implemented within the entity.

Audit recommendation

We recommend that management consider developing an organization-wide security policy that includes the following areas. The policy shall be reviewed on an annual basis to maintain its currency.

- Information security policy statement;
- Access control policy;
- Backup policy;
- Change management and release policy;
- Information systems acquisition, development, and maintenance policy;
- Human resources security policy;
- Operations management policy;
- Communication security policy;
- Incident management policy; and
- Compliance policy.

We recommend that MCA-Mongolia follow a leading information practice framework such as ISO 27001 to develop a comprehensive policy.

Management response

MCA-Mongolia accepts this recommendation. Information security policy updates are underway, and the draft is planned to be completed this year.

5.2.4 Absence of a Formal Vulnerability Management Program

Type: Significant deficiency

Condition

During our review, there was no evidence to suggest that MCA-Mongolia has a formal vulnerability management program that addresses the regular vulnerability scans and attack and penetration testing, as well as developing and implementing suitable system hardening to mitigate identified risks/threats. No formalized vulnerability management program has been implemented at MCA-Mongolia.

Criteria

Vulnerability management programs help to protect organizations' IT systems and applications from identified weaknesses. These programs would typically include regular assessment of the organization's IT environment and the development and implementation of suitable system hardening standards to help reduce the risk of potential security breaches.

Cause

Vulnerability testing has not been performed yet.

Effect

In the absence of an effective vulnerability management program, including periodic vulnerability scanning and penetration testing, vulnerabilities/ weaknesses may be present within the systems. They would not be detected in a timely manner. As a result, a knowledgeable attacker can gain unauthorized access to sensitive systems/ information, which could, in turn, lead to data losses, confidentiality breaches, and/or business disruptions.

Audit recommendation

We recommend management consider implementing a formal vulnerability management program, including regular internal, external, and independent vulnerability assessments. The vulnerability management program should also include processes and procedures to regularly review the system/ application configurations and update the system hardening standards.

Management response

MCA-Mongolia accepts the audit recommendation. Vulnerability Management should be included in Information Security Policy. In addition, regular checking and audit, vulnerability testing software purchase, and external penetration testing may be required as recommended. We will discuss the recommendations with MCC's IT team and Iron Vine Security LLC and plan to implement internal testing by Quarter 1 of 2023.

5.2.5 Absence of a Change Management Process

Type: Significant deficiency

Condition

At the time of the review, there was no evidence to suggest that a formal change management methodology had been defined and adopted by the Entity. We further noted that the changes made to the Entity's systems, such as security settings and security upgrades, are not documented. There is no documented change management process available at MCA-Mongolia.

Criteria

A formally approved and implemented change management process would help IT management appropriately identify and manage risks associated with IT changes. Such a process/methodology typically includes system acquisition, development, and maintenance of hardware, application systems, network and communication software, and systems software.

Cause

The IT team does not yet have guidelines and rules for implementing the change management process. Team members make a record in their files.

Effect

In the absence of such records, changes made to systems cannot be assessed, and it will not be possible to determine if the associated risks/impacts have been assessed and suitable mitigation controls have been implemented.

Audit recommendation

We recommend management consider defining and implementing a suitable change management process/methodology to address the following types of change at a minimum:

- System acquisition, development, and maintenance;
- Changes made to applications (e.g., application configuration, updates, upgrades);
- Changes made to IT Infrastructure (e.g., network/hardware configurations, device hot-fixes).

The documentation should include identifying areas affected, testing procedures and their results, implementation plans, user acceptance testing, and roll-back plans. The records should also include the approvals obtained before implementation.

Management response

MCA-Mongolia accepts this recommendation.

5.2.6 Absence of Backup Restoration Testing

Type: Significant deficiency

Condition

It was noted that MCA-Mongolia is not performing backup restoration testing for the backups taken. Additionally, MCA-Mongolia has not defined the backup restoration testing requirements.

Criteria

Organizations that depend on backup tapes to recover critical applications, data, and processes, need to ensure that the integrity of the backup tapes is tested regularly.

Cause

Regular backups are taken daily, weekly and monthly as configured. The backup recovery test was performed twice and is not routinely tested.

Effect

Data backup without backup testing may render the whole Business Continuity Plan (BCP) worthless with respect to IT data restoration, as backup errors will not be detectable before a disaster.

Audit recommendation

It is recommended that MCA-Mongolia adheres to the documented backup and restoration procedures.

Management response

MCA-Mongolia accepts this recommendation.

5.2.7 Absence of Business Continuity and Disaster Recovery (BC/DR) Plans

Type: Significant deficiency

Condition

During the review, it was noted that MCA-Mongolia is in the process of documenting the BC/DR plans; however, these have not been finalized. MCA-Mongolia has not developed and finalized the BCP/DRP.

Criteria

A BCP helps the entity identify threats to its continued operations and to prepare contingency plans to meet such eventualities that may arise. It will also help the entity restore its operations in an organized

and timely manner in case of a business disruption. On the other hand, a DRP addresses the procedures to be followed to reinstate the technology-related aspects of their position before the disaster. A DRP is normally part of the overall BCP.

Cause

MCA-Mongolia is in the process of documenting the BC/DR plans and planning to finalize them within this year.

Effect

In the absence of a formally defined, approved, implemented, tested, and maintained disaster recovery/business continuity plan, the organization may not be able to recover from an incident or disaster situation in a timely and organized manner.

Audit recommendation

We recommend that MCA-Mongolia management considers developing a comprehensive IT BC/DP plan. A typical BC/DR Plan should primarily highlight the following:

- Risk Assessment of the IT systems and services that assists in finding the most important services/ applications that support the business
- Risk ratings of all applications running in the organization together with the maximum acceptable downtimes, maximum acceptable loss of data, and single points of failures
- Identified scenarios of service disruptions and detailed procedures and actions/ systematic steps to be taken to return to normalcy
- Test Plans and schedules and mechanisms to capture areas requiring further improvement for updating the BC/DR plan

Management response

MCA-Mongolia accepts this recommendation. The draft of the BC/DR plan has been developed. Iron Vine Security LLC's on-site training will take place in September, 2022 and Information Security policies and procedures will be finalized during the training.

5.3 Audit findings on Compliance with agreements and applicable laws and regulations

5.3.1 The provisions of non-discrimination against employees do not include certain conditions

Type: Material noncompliance

Condition

The Employment Policy section of the HR Manual does not contain some provisions on non-discrimination between employees and prospective employees (4.1 Equal Opportunities) (such as language, social origin, social and marital status, wealth, opinion, trade union membership, pregnancy, and whether she gave birth or not).

Criteria

The revised Labor Law provides for “employment, ethnicity, language, race, age, sex, social origin, social and marital status, wealth, religion, opinion, political views, and membership in a trade union, health status, pregnancy or childbirth, sexual or gender orientation, expression, disability, direct or indirect discrimination based on appearance, restriction of rights, or granting privileges within employment relations is prohibited” (§6.1).

Cause

This non-compliance has arisen due to the introduction of detailed provisions on discrimination in the revised Labor Law.

Effect

The omission of other relevant issues for a particular issue under the internal regulation may result in errors in the decision-making process related to the employee and violation of the employee's rights. In accordance with the Law on State inspection and supervision, the non-planned inspection can be conducted per request, complaint, petition, and information of the individual, entity, and organization by the state inspector in charge of labor matters of the state specialized inspection agency and inspect whether working environment without discrimination, violence, harassment, and sexual harassment is created.

Audit recommendation

“4.1. Equal Opportunities” section of the HR Manual is recommended to add a paragraph on non-discrimination by language, social background, marital status, wealth, views, trade union membership, pregnancy and childbirth, and non-discrimination based on language and social status between employees and future employees.

Management Response

MCA-Mongolia accepts the audit recommendation. MCA-Mongolia is working to bring the HR Manual into line with the revised Labor Law.

5.3.2 About Gender discrimination and its different regulation

Type: Material noncompliance

Condition

MCA-Mongolia's HR Manual has still kept the provision of the Labor Law that was repealed by January 2022 stating that (1) "A staff member (a female, as well as a single father), who has adopted a child, is entitled to have "Maternity leave" until the child reaches sixty (60) days of age", (2) "A female employee or a single father shall be entitled to have the following child care breaks each day."

Criteria

(1) According to the revised Labor Law Article 138.1, "If any of the parents who have adopted a newborn child makes a request, he or she shall be granted a leave with pay in an amount equal to his/her average salary until the child reaches 60 days of age" (2) Article 139.1. "Where a mother or father of a child up to 3 years old makes a request, an employer shall grant her or him a child care leave and regulate a provision of pay during the leave period by the legislation, collective agreement, collective bargaining, employment contract, and internal labor regulation". It does not specify that a male employee who is requested to take parental or child care leave under three must be single.

Cause

The revised Labor Law prohibits direct or indirect discrimination based on gender, restriction of rights, or privileges. In addition, it provides for parental, or child care leave to employees without discrimination based on parenthood.

Effect

The omission of other relevant issues for a particular issue under the internal regulation may result in errors in the decision-making process related to the employee and violation of the employee's rights. In accordance with the Law on State inspection and supervision, the non-planned inspection can be conducted per request, complaint, petition, and information of the individual, entity, and organization by the state inspector in charge of labor matters of the state specialized inspection agency and inspect whether working environment without discrimination, violence, harassment, and sexual harassment is created.

Audit recommendation

It is recommended to add "An employee who adopts a child (female, single father) is granted a maternity leave until the child reaches 60 days of age", (2) to remove "single father" from Article 10.4 "A female employee or a single father shall be entitled to the following child care breaks each day" and to make appropriate amendments.

Management Response

MCA-Mongolia accepts the audit recommendation. MCA-Mongolia is working to bring the HR Manual into line with the revised Labor Law.

5.3.3 The amount of termination benefits is not in accordance with the revised Labor Law

Type: Material noncompliance

Condition

HR Manual states, "MCA-Mongolia shall pay an employee whose contract has been terminated due to redundancy an additional compensation equal to the employee's average compensation for one month" (§11.3, paragraph 3).

Criteria

Under the revised Labor Law, the amount of allowance to be paid to an employee who has terminated an employment relationship on the grounds of dismissal on the basis of the workplace is removed depending on the employee's years of service (e.g., MCA-Mongolia) (regardless of whether he/she is entitled to unemployment benefits from the social insurance fund) (§82.1). For example, an allowance equal to 1 or more months' basic salary if you have worked for the business entity for six months up to two years, and an allowance equal to 2 or more months' basic salary if you have worked for two years up to five years (§82.1.1 - §82.1 .4) and so on.

Cause

This inconsistency has arisen due to introducing this new provision under the revised Labor Law.

Effect

MCA-Mongolia might make an error in the decision-making process related to the employee and violation of the employee's rights due to a change to the HR Manual that has not been inserted, subsequently leading to a labor rights dispute. In accordance with the Law on State inspection and supervision; and Labor law (revised), the non-planned inspection can be conducted per request, compliant, petition, and information of the individual, entity, and organization by the state inspector in charge of labor matter of the state specialized inspection agency and inspect enforcement of labor legislation for rights of an employee.

Audit recommendation

Under Article 82.1 of the revised Labor Law, it is recommended that the necessary changes be made to the relevant section of the HR Manual.

Management Response

MCA-Mongolia accepts the audit recommendation. MCA-Mongolia is working to bring the HR Manual into line with the revised Labor Law.

5.3.4 Inadequate definition of “workplace” in the anti-sexual harassment policy

Type: Material noncompliance

Condition

The “Anti-Sexual Harassment Policy” approved by Annex 2 of the HR Manual sets out the conditions under which “sexual harassment in the workplace” is considered a “workplace”. However, these conditions do not include some of the conditions in the revised Labor Law.

Criteria

The revised Labor Law prohibits harassment, violence, and sexual harassment in employment and employment relationships. For this purpose, employment and labor relations are defined as “public events organized by employers, business entities and organizations to perform their duties, work on business trips, come to work, change shifts, hand over jobs and attend pieces of training and other public events which are organized by the entity or organization.”

Cause

This inconsistency has arisen because the previous Labor Law did not regulate the prohibition of harassment, violence, and sexual harassment, nor did it regulate employment and labor relations.

Effect

Employees and employers may commit illegal acts, and the omission of other relevant issues may result in errors in the decision-making process related to the employee and violation of the employee's rights.

Audit recommendation

It is recommended to add “when coming to work or returning from work; when handing over the work” in the definition of the “Workplace” condition of “Anti-sexual harassment policy” approved in Annex 2 of the HR Manual.

Management Response

MCA-Mongolia accepts the audit recommendation. MCA-Mongolia is working to bring the HR Manual into line with the revised Labor Law.

5.3.5 “Grievance Procedure” does not meet the requirements of the revised Labor Law

Type: Material noncompliance

Condition

The “Grievance Procedure” approved in Annex 16 of the HR Manual is inconsistent with the provisions of the revised Labor Law. In particular, filing and resolving a grievance is shorter than the time specified under the revised Labor Law.

Criteria

The revised Labor Law provides a new regulation of labor rights disputes. “Labor rights dispute” means a disagreement among the parties about implementing the labor legislation, all types of collective agreements, collective bargaining, employment contracts, and internal labor regulations, or interpreting such regulations. In dispute resolution, within 30 days of receipt of the employer’s decision on termination or expiry of employment relations, or transfer to another job or working in rotation, the other issues of labor rights disputes shall be resolved within 90 days. Also, some complaints must be resolved within ten working days from the date of receipt.

Cause

This inconsistency has arisen because the previous Labor Law did not specify how labor disputes should be resolved in detail.

Effect

A shortened time for filing and resolving complaints may lead to a violation of the employee's right to have proper resolution of labor disputes established under the revised Labor Law. In this regard, the employee may initiate labor rights disputes.

Audit recommendation

It is recommended that appropriate changes be made to the “Grievance Procedure” set out in Annex 16 of the HR Manual.

Management Response

MCA-Mongolia accepts the audit recommendation. MCA-Mongolia is working to bring the HR Manual into line with the revised Labor Law.

5.3.6 The provision of the employment agreement about working overtime at no additional compensation is not in accordance with the revised Labor Law

Type: Material noncompliance

Condition

Article 3.6 of the Employment Agreement states that "Hours. A regular business day will be eight hours of work per day plus a one-hour break for lunch. Scheduled hours for each regular business day will be per the HR Manual, which may be modified from time to time as needed for business considerations. As specified in Annex A, the Employee's duties may occasionally require work beyond the regular business day at no additional compensation."

Criteria

Article 109.1 of the revised Labor law states, "If an employee who worked overtime is not given a time in lieu, he/she shall receive pay in an amount equal to 1.5 times or more his/her average salary". Therefore, it is required to give time in lieu or to pay in an amount equal to 1.5 times more his/her average salary in case of an employee working overtime.

Cause

This non-compliance is caused due to this clause which states that overtime work without compensation is included in the employment agreement template of the organization.

Effect

Non-compliant clauses in the employment agreement template could lead to errors in the decision-making process related to the employee and violation of the employee's rights. In accordance with the Law on State inspection and supervision and Labor law (revised), the non-planned inspection can be conducted per request, complaint, petition, and information of the individual, entity, and organization by the state inspector in charge of labor matter of the state specialized inspection agency and inspect enforcement of working conditions, rights of employee, working hours and compensation under the labor legislation.

Audit recommendation

It is recommended to delete a paragraph of "The employee's duties as specified in Annex A may occasionally require work beyond the regular business day at no additional compensation" from Article 3.6 of the Employment Agreement template.

Management Response

MCA-Mongolia accepts the audit recommendation.

5.3.7 The term of non-compete obligations specified in employment agreements is not in accordance with the revised Labor Law

Type: Material noncompliance

Condition

Article 4.5.3 of the Employment Agreement template states that “The Employee agrees that, during the Term and either two (2) years after the termination of this Agreement or the expiration of the Compact, whichever is shorter, the Employee will not solicit, encourage, or cause others to solicit or encourage any employees of MCA-Mongolia to terminate their employment with MCA-Mongolia.”

Criteria

Article 72.3 of Labor Law states that “A length of time of application of the additional non-compete terms or supplementary agreement shall not be more than one year after the employee’s employment relations are over,” which is a non-compete obligation shall not be more than one year after the termination of the employment agreement.

Cause

This non-compliance is caused because the non-compete regulation was newly added under the revised Labor Law.

Effect

Non-compliance with the employment agreement could lead to errors in the decision-making process related to the employee and violation of the employee's rights. In accordance with the Law on State inspection and supervision and Labor law (revised), the non-planned inspection can be conducted per request, complaint, petition, and information of the individual, entity, and organization by the state inspector in charge of labor matter of the state specialized inspection agency and inspect enforcement of working conditions, rights of employee, working hours and compensation under the labor legislation.

Audit recommendation

It is recommended to amend the text of “two (2) years after the termination of the agreement” to “one (1) year after the termination of the agreement” of Article 4.5.3 of the Employment agreement template of MCA-Mongolia.

Management Response

MCA-Mongolia accepts the audit recommendation. MCA-Mongolia is working to bring the HR Manual into line with the revised Labor Law.

5.3.8 Missing work condition of each position on Employment agreement template - Repeated audit finding

Type: Material noncompliance

Condition

One of the mandatory basic conditions, "working conditions" which requires to be stated on employment agreement is missing.

Criteria

In accordance with article 21.3 of Labor law Mongolia (dated 1999) stated that during the establishment of an employment agreement, if one of the basic conditions specified in paragraph 21.1 of Labor law have not been agreed upon, the employment agreement shall not be considered as established.

Cause

The employment agreement template was approved by MCC and Board of Directors.

Effect

Due to the missing clause of work condition in the employment agreement, the MCA-Mongolia can be considered as not having concluded the employment agreement. This action is infringement under paragraph 4.3 of Article 10.16 of the Law of Mongolia on Infringement (dated 2017) as the Employer has not concluded the employment agreement with the employee in writing and the employee has performed duties without execution of written employment agreement, the employer or MCA-Mongolia shall indemnify loss and reimburse the compensation and shall be punishable by 1,500,000 MNT (app 526.5US\$).

Audit recommendation

As defined in article 3.1.10 of Labor law and article 3.1.4 of Law on Labor safety and hygiene, working condition means a workplace or manufacturing surroundings factor which affects the working skill and health of the employee during employment solely or in a combined manner.

Under the standard MNS 5080:2001 – "Occupational safety. Industrial hygiene. Working conditions, their classification and factors. Assessment of working conditions", the working condition is classified as normal and abnormal. The working condition shall be assessed and its type shall be identified in accordance with the standard. After the working conditions of each position of MCA-Mongolia has been assessed and identified, the article of working condition shall be added to the employment agreement template.

Management Response

MCA-Mongolia agrees with the auditor's recommendation. Amendment to the employment agreement is a subject to the MCC and Board's approval. Therefore, the MCA-Mongolia needs to discuss this issue with the MCC to get No objection and present the issue to the Board of Directors after receipt of the MCC's written approval.

5.3.9 Discriminated approach to pay overtime compensation and add a clause on overtime pay to the employment agreement template - Repeated audit finding

Type: Material noncompliance

Condition

Only band A support staff may be compensated for overtime work, not exceeding 40 hours per month, subject to the requirements of the Labor Law of Mongolia. Overtime means time worked in excess of the scheduled workday or the scheduled workweek or time worked on official holidays as stated in paragraph 7.3 of HR Manual.

Criteria

Under section purpose of IFC PS2, MCA-Mongolia is to promote the fair treatment, non-discrimination and equal opportunity of workers, and compliance with national labor and employment laws

In accordance with articles 52 and 53 of Labor Law of Mongolia, if an employee works overtime or on weekly rest days, and has not been given another rest day for each such day, he or she shall receive compensation for such work in an amount equal to at least one and one-half times his or her average compensation. If an employee works on a public holiday, and is not given another day off from work for each such day, he or she shall receive compensation for such work at double rate of his or her average compensation. The overtime pay shall be regulated under the collective and employment agreement.

Cause

MCA-Mongolia's explanation: MCC's guidance were used as a basis for the development of the MCA-M's HR manual.

Effect

The discrimination or the conclusion of limitations or advantage based on nationality, race, sex, social origin or status, wealth, religion, position, education or ideology is prohibited under the Labor law. It is a breach of Labor law because overtime pay is paid to only A bank support staff or discriminated against by the position and education of the employee.

Audit recommendation

As stated in the HR Manual, overtime payments should be structured based upon the provisions of the Labor Law of Mongolia. It is strongly preferred to compensate overtime by compensation leave instead of pay.

It is highly recommended to insert a clause in the employment agreement on overtime pay in accordance with Labor law as well as the HR Manual such as a clause that states "if the employee has worked overtime, he/she is entitled to get a leave which equals to the worked overtime hours".

Management Response

MCA-Mongolia agrees with the auditor's recommendation. Amendment to the HR manual is a subject to the MCC and Board approval. MCA-Mongolia needs to discuss this with the MCC to get No objection and present the issue to the Board of Directors after receipt of the MCC's written approval.

5.3.10 HR manual states that one month salary to be provided to the redundant employee in lieu of notice period - Repeated audit finding

Type: Material noncompliance

Condition

Extract of paragraph 11.2 of HR Manual - If no notice is provided, MCA-Mongolia will provide one (1) month salary in lieu of notice period. The following instances shall be considered grounds for termination with one (1) month notice, except where MCA-Mongolia may choose to provide one (1) month salary in lieu of notice period: Staff member's position is made redundant at MCA-Mongolia.

Criteria

In accordance with Article 17 of Decree 33 Elaboration of some paragraphs and articles of the Labor law of the Supreme Court dated July 3, 2006, the Employer or MCA-Mongolia shall give a written notice to the employee prior to 30 days of termination date and the Employee shall sign on a copy of writing termination notice as confirming that receipt of the termination notice in case of redundancy of the position.

The same requirement applies to employment termination with the grounds that the employee cannot meet the requirements of the job or position due to lack of professional qualifications or skill, or health reasons.

Cause

As explained by MCA-Mongolia, Article 11.3 of the HR manual specifically states the procedures to be followed in the event of a redundancy. However, it was duplicated in Article 11.2.

Effect

The termination of the employment without giving writing notice to the employee, it is considered as a procedural error during redundancy termination. In practice, even if the Employee agrees to get a 1-month salary in lieu of the notice period, the Employee still has the right to file a claim against the Employer to the court.

Based upon a practical labor litigation case, the Employee had filed a claim against the Employer in a similar scenario and the Judge accepted the claim, he/she dictates that the Employer to rehire the Employee and pay all salary during the litigation period.

Audit recommendation

We highly recommend deleting all paragraphs that state "..... provide one (1) month salary in lieu of notice period". It is noncompliant with Article 17 of Decree 33 Elaboration of some paragraphs and articles of the Labor law by the Supreme Court dated July 3, 2006 and shall be considered a procedural omission during the redundancy termination.

Management Response

Agree with the auditor's recommendation. Amendment to the HR manual is a subject to the MCC and Board approval. MCA-Mongolia needs to discuss this with the MCC to get No objection and present the issue to the Board of Directors after receipt of the MCC's written approval.

6. REVIEW OF PRIOR AUDIT RECOMMENDATIONS

We followed up on the prior audit recommendations, and implementation status has been shown.

Recommendations	Implementation status	Closed or repeated
<p>1. Internal control related: Failure of some component principles in MCA-Mongolia's Internal control system</p> <p>Maintaining a sound and robust internal control system serve as measurement criteria for institutional "good governance." Therefore, to establish an optimal and systematic internal control system, MCA-Mongolia's management should evaluate if the component principles stated in <i>GAO Standards for Internal Control in the Federal Government</i> are pursued. It is recommended that MCA-Mongolia's management devote attention to issues related to control environment, risk assessment, and control monitoring observed by auditors and plan remedial actions accordingly.</p>	<p>Fully implemented.</p> <p>By March 29, 2022, MCA-Mongolia issued the Internal Control System Evaluation document. We suggested further improvement that overall assessment should be done separately for each component on its design and implementation (a control has truly existed) and effectiveness (control is applied by a responsible unit or personnel regularly and still capable of preventing and detecting any potential risks).</p>	<p>Closed</p>
<p>2. Internal control related: No determination and disclosure of related parties and related party transactions</p> <p>MCA-Mongolia should develop appropriate policies and procedures to determine and disclose related parties and related party transactions and include the relevant requirements in the Fiscal Accountability Plan. Under these procedures, MCA-Mongolia will disclose related party relationships, the transaction amount, and the outstanding balances on the Fund Accountability Statement by the year-end.</p>	<p>Unnecessary</p> <p>The latest version of FAP has included the article about Related Party Transactions. It says that the related party disclosure requirements in the General Tax Law and Corporate Income Tax Law do not apply to MCA-Mongolia. Therefore, MCA-Mongolia shall not disclose related party transactions in the FAS for tax purposes. All employees of MCA-Mongolia disclose a Conflict of Interest in accordance with MCA-Mongolia's Conflict of Interest Policy. In addition, all key personnel are required to submit reports as per Anti-Corruption Law.</p>	<p>Closed</p>
<p>3. Internal control related: Disaster recovery plan under business continuity plan had no tests done</p> <p>Fiscal Agent should perform at least one test annually for the disaster recovery plan under the business continuity plan and document the test result.</p>	<p>Fully implemented.</p> <p>By September 30, 2021, the Fiscal Agent conducted the Disaster Recovery Plan Test and issued a report showing the test plan and results. We further suggested the time taken for recovery (called a Recovery Time Objective-RTO) needs to be identified in the Disaster Recovery Plan.</p>	<p>Closed</p>

<p>4. Compliance related: Missing work condition of each position on Employment agreement template</p> <p>As defined in article 3.1.10 of Labor law and article 3.1.4 of Law on Labor safety and hygiene, working condition means a workplace or manufacturing surroundings factor which affects the working skill and health of the employee during employment solely or in a combined manner.</p> <p>Under the standard MNS 5080:2001 – “Occupational safety. Industrial hygiene. Working conditions, their classification, and factors. Assessment of working conditions”, the working condition is classified as normal and abnormal. The working condition shall be assessed, and its type shall be identified in accordance with the standard. After the working conditions of each position of MCA-Mongolia has been assessed and identified, the article on working condition shall be added to the employment agreement template.</p>	<p>Partially implemented.</p> <p>MCA-Mongolia drafted the amendment to the Employment agreement on the ‘Labor condition’ and submitted it to MCC for review and approval.</p>	<p>Repeated (Audit finding 5.3.8 on page 47)</p>
<p>5. Compliance related: Discriminated approach to pay overtime compensation and add a clause on overtime pay to the employment agreement template</p> <p>As stated in the HR Manual, overtime payments should be structured based on the provisions of the Labor Law of Mongolia. It is strongly preferred to compensate overtime by compensation leave instead of pay. It is highly recommended to insert a clause in the employment agreement on overtime pay in accordance with Labor law as well as the HR Manual, such as a clause that states, “if the employee has worked overtime, he/she is entitled to get a leave which equals to the worked overtime hours.”</p>	<p>Partially implemented.</p> <p>MCA-Mongolia drafted the amendment to the HR Manual about ‘Paid-leave entitlement for overtime’ and submitted it to MCC for review and approval.</p>	<p>Repeated (Audit finding 5.3.9 on page 48)</p>
<p>6. Compliance related: the HR manual states that one month's salary is to be provided to the redundant employee in lieu of the notice period</p> <p>We highly recommend deleting all paragraphs that state “ provide one (1) month salary in lieu of notice period”. It is non-compliant with Article 17 of Decree 33 Elaboration of some paragraphs and articles of the Labor law by the Supreme Court dated July 3, 2006, and shall be considered a procedural omission during the redundancy termination.</p>	<p>Partially implemented.</p> <p>MCA-Mongolia issued a proposal for omitting the relevant clause to the HR Manual and submitted it to MCC for review and approval.</p>	<p>Repeated (Audit finding 5.3.10 on page 49)</p>