



Rinzing Financial Private Limited

**AUDIT REPORT ON THE FINANCIAL
STATEMENTS OF DRUK METHO**

PERIOD: JAN 1, 2019 to DEC 31, 2019

MARCH 2020

TITLE SHEET

Title	:	Financial Audit Report of Druk Metho
Head of the agency	:	Mr. Thinley Namgay CID No. 11303003217
Finance Personnel	:	Mr. Lhasang Tamang, Finance Officer CID No. 11308003226
Period Audited	:	January 1, 2019 – December 31, 2019
Schedule of Audit	:	Planning: Feb 16, 2020 – March 1, 2020 Actual: March 02, 2020 – March 20, 2020 Reporting: March 30 , 2020
Composition of Audit Team	:	<u>Team Leader:</u> Tashi Rinzing Schmidt, Audit Partner CID No. 11410002120 <u>Team Members:</u> 1. Shrijana Rai, Sr. Audit Associate CID No. 11306001532 2. Ngawang Loday, Sr. Audit Associate CID No. 10604000452 3. Kunzang P. Tenzin, Audit Associate CID No. 11410000669 4. Biran Rasaily, Audit Associate CID No. 11803002763
Supervising Officer	:	Tashi Rinzing Schmidt, Audit Partner
Focal Person	:	Tashi Rinzing Schmidt Email: tashi@rinzingfinancial.com Phone: +975 7765 3070



Rinzing Financial Private Limited

Disclaimer Note

The coverage of this report is based on the facts, figures and information made available and accessible to the audit team by the management of **Druk Metho**. The opinion of the auditors shall be confined to the period covered and information made available till the time of issue of this report.

This is also to certify that the auditors during the audit had neither yielded to pressure, nor dispensed any favor or resorted to any unethical means that would be considered as a violation of the Royal Audit Authority's Oath of Good Conduct, Ethics and Secrecy of Auditors.

GLOSSARY OF ABBREVIATIONS & ACRONYMS

CPA	:	Certified Public Accountant
DM	:	Druk Metho
GAAP	:	Generally Accepted Accounting Principles
IESBA	:	International Ethics Standards Board for Accountants
ISA	:	International Standards on Auditing
Nu.	:	Ngultrum
RFPL	:	Rinzing Financial Private Limited

Table of Contents

INDEPENDENT AUDITOR'S REPORT	1-2
Report on the Audit of the Financial Statements	1-2
FINANCIAL STATEMENTS	3-5
Statement of Financial Position as at December 31, 2019	3-4
Statement of Income for the Year Ended December 31, 2019	5
ACCOUNTING POLICIES & NOTES TO ACCOUNTS	6-10
MANAGEMENT REPORT	11

INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

To the management of Druk Metho

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Druk Metho which comprise the statement of financial position as at December 31, 2019, and the statement of comprehensive income, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019, and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles (GAAP).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Bhutan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

For the audit of the Financial Statements, we did not find any significant issue to be reported under Key Audit Matters.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Generally Accepted Accounting Principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

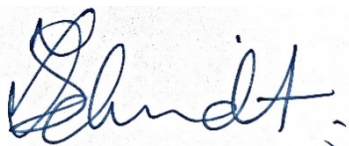
As part of audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

Rinzing Financial Private Limited

Firm License Number: 1036380



Tashi Rinzing Schmidt, CPA

Audit Partner

License Number: 34762

Date: March 30, 2020

Place: Thimphu, Bhutan



FINANCIAL STATEMENTS

DRUK METHO
STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2019

(Amount in Nu.)

Particulars	Notes	December 31, 2019
ASSETS		
Non-current assets		
Property, Plant & Equipment	2	483,863
Total non-current assets		483,863
Current assets		
Trade and other receivables	3	645,628
Cash and cash equivalents	4	418,631
Advances	5	181,543
Inventory	6	163,028
Total current assets		1,408,830
Total assets		1,892,693
EQUITY & LIABILITY		
Equity		
Owner's Equity		1,177,328
Retained Earnings		553,376
Total equity		1,730,704
Current Liability		
Trade & other payables	7	161,989
Total current liability		161,989
Total equity and liability		1,892,693

DRACHUKHA FLOWER GROUP
STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2019

(Amount in Nu.)

Particulars	December 31, 2019
ASSETS	
Non-current assets	
Property, Plant & Equipment	229,257
Total non-current assets	229,257
Current assets	
Loans & Advances (Asset)	560
Cash and cash equivalents	191,932
Inventory	215,077
Total current assets	407,569
Total assets	636,826
EQUITY & LIABILITIES	
Equity	
Retained Earnings	410,046
Total equity	410,046
Current liabilities	
Trade and other payables	226,780
Total current liabilities	226,780
Total equity and liabilities	636,826

** This balance sheet is for presentation purpose only for Druk Metho. Drachukha Flower Group's balance sheet has no bearing on Druk Metho's balance sheet. Income and expenditure are shared between the two entities. Balance sheets are maintained separately.*

DRUK METHO
STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 2019

(Amount in Nu.)

Particulars	Note	Consolidated*	Druk Metho 40%	Drachukha Flower Group 60%
INCOME				
Product sales	8	1,773,590	709,436	1,064,154
Flower sales	8	1,103,621	441,448	662,173
Grant income	8	733,975	293,590	440,385
Other income (Crowd Funding)	8	156,310	62,524	93,786
Total Income		3,767,496	1,506,998	2,260,498
EXPENSES				
Cost of goods sold	9	447,623	179,049	268,574
Payroll expenses	10	805,000	322,000	483,000
Marketing expense	11	57,845	23,138	34,707
Other expenses	12	915,976	366,390	549,586
Total Expenses		2,226,444	890,578	1,335,866
PROFIT/(LOSS) SUBJECT TO SPLIT		1,541,052	616,421	924,631
Depreciation expense**	2	90,280	71,635	18,645
Current tax		-	-	-
NET PROFIT/(LOSS)		1,450,772	544,786	905,986

** Per agreement between Druk Metho and Drachukha Flower Group, all revenue and costs are shared between Druk Metho and Drachukha Flower Group with 40% allocated to Druk Metho and 60% allocated to Drachukha Flower Group.*

*** Depreciation expense is calculated based on assets owned separately by each entity, as such, it not subject to the 40% - 60% allocation.*

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

Note 1: Significant Accounting Policies

Nature of Operations

Druk Metho (“DM”) is a production and manufacturing business registered as a sole proprietorship in Thimphu, Bhutan. Druk Metho works in partnership with an all-female farmers group, Drachukha Flower Group, which was started by three young educated female farmers in Drachukha, Punakha. Drachukha Flower Group is a registered cooperative under the Ministry of Agriculture.

Druk Metho is a social enterprise with a social and an environmental purpose. The social purpose is to develop a thriving food enterprise, which puts the empowerment of the involved farmers at the heart of all efforts. The environmental purpose is to drive changes in the agricultural system towards more sustainable and resilient farming practices, driven by demand which is created by food processing.

Profit & Loss Allocation

Per the agreement between Druk Metho and the Drachukha Flower Group, all income and expenses are shared between the two entities. 40% of all income and expenses are allocated to Druk Metho and the remaining 60% is allocated to the Drachukha Flower Group. Depreciation expense and tax expenses (when incurred for Druk Metho) shall not be subject to the 40%-60% allocation. Depreciation expense shall be calculated based on assets owned by each individual entity. Tax obligations (if any) shall be the responsibility of each entity.

Basis of Preparation

The financial statements are prepared per Generally Accepted Accounting Principles.

Functional and Presentation Currency

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the Company operates. The functional currency of DM is Bhutanese Ngultrum (Nu.) which is also the presentation currency.

Property, Plant and Equipment (PP&E)

PPE is initially recognized at cost. The company follows the cost model for Property, Plant and Equipment and are stated at cost less accumulated depreciation and where applicable accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labor and any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Only those costs are recognized as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the entity and the cost can be measured reliably.

Depreciation

Depreciation on property, plant and equipment shall be calculated using the straight-line method at the rates prescribed in the Rule on Income Tax 2017 (Depreciation Schedule: Annexure II). The depreciation on property, plant and equipment purchased during the year is pro-rated on the basis of actual number of calendar days from the date asset are available for use.

Capital Work-In-Progress

Expenditure on material, labor, contract expenses and directly attributable cost such as employee costs, overhead, and project management expenses incurred the during construction period for executing the particular project are included in CWIP until construction is completed after which these will be capitalized.

Indirect expenditure and overhead incurred are expensed and not capitalized.

Statement of Cash Flows and Statement of Changes in Equity

The income and expenses are allocated between Druk Metho and the Drachukha Flower Group in a 40% - 60% split, however, all the cash transactions for sale and expenses are handled by Druk Metho. The split is calculated and allocated at the end of the year. As such, the Statement of Cash Flows for Druk Metho will be misleading to the financial statement users since Druk Metho's cash movements are not indicative of the expenses incurred on Druk Metho's Income Statement.

Druk Metho is a sole proprietorship, as such, a Statement of Changes in Equity is not relevant.

Therefore, the Company has elected to forego presenting the Statement of Cash Flows and Statement of Changes in Equity.

Note 2: Property, Plant and Equipment*(Amount in Nu.)*

Property, Plant and Equipment	Balance as at Jan 1, 2019	Additional	Depreciation	Balances as at Dec 31, 2019
Computers & Peripheral	33,281	27,000	5,680	54,601
Furniture & Fixture	36,033	117,800	18,739	135,094
Machinery & Equipment	246,996	79,389	47,216	279,169
Capital-Work-In-Progress (CWIP)	-	-	-	15,000
TOTAL	316,309	224,189	71,635	483,863

Note 3: Trade and Other Receivables*(Amount in Nu.)*

Particulars	December 31, 2019
Credit Sales Receivable	630,508
TDS Receivable	15,120
Total	645,628

Note 4: Cash & Bank Balances*(Amount in Nu.)*

Particulars	December 31, 2019
Cash-in-Hand	1,694
Bank Accounts	416,936
Total	418,630

Note 5: Loans and Advances*(Amount in Nu.)*

Particulars	December 31, 2019
Choki	690
Deepak	1,990
Kinley Zangmo	660
Tshering Yangden	690
Wangchuk Dema	690
Drachukha Flower Group	176,823
Total	181,543

Note 6: Inventory*(Amount in Nu.)*

Particulars	December 31, 2019
Finished products	10,341
Glass and Grinder	152,687
Total	163,028

Note 7: Trade and Other Payables*(Amount in Nu.)*

Particulars	December 31, 2019
Adrian Von Bernstorff	63,777
IMO Payment	58,522
BIO Bhutan	25,783
Changzamtog Service Center	5,756
Rent Payable	5,121
Health Contribution	3,030
Total	161,989

Note 8: Income*(Amount in Nu.)*

Particulars	December 31, 2019
Finished products sale	709,436
Sale of raw materials (flowers)	441,448
Grant income	293,590
Crowd funding income	62,524
Total	1,506,998

Note 9: Cost of Goods Sold*(Amount in Nu.)*

Particulars	December 31, 2019
Opening stock	-
Add: Purchases	223,025
Less: Closing Stock	90,167
Net Consumed	132,858
Other direct costs	46,191
Total cost of goods sold	179,049

Note 10: Payroll Expenses*(Amount in Nu.)*

Particulars	December 31, 2019
Salaries and wages	322,000
Total	322,000

Note 11: Marketing Expenses*(Amount in Nu.)*

Particulars	December 31, 2019
Marketing & Advertisements	23,138
Total	23,138

Note 12: Other Expenses*(Amount in Nu.)*

Particulars	December 31, 2019
Bank Charges	256
Daily Substances Allowance	59,794
Electricity Expenses	6,680
Fines & Penalty	439
Food and Lodging	3,176
Fuel Expenses	9,208
Insurance	4,137
License Renewal Fees	29,008
Office Expenses	43,284
Printing & Stationaries	4,090
Product Wastage and Promotion	9,751
Registration Fee	400
Rent Expenses	30,798
Repairs & Maintenance	2,502
Telephone & Internet	3,615
Transportation Cost	86,860
Travels, Meals & Lodging	28,801
Bookkeeping & Accounting Training	1,200
Capacity Building of Farmers Group	5,760
Eu Organic Certification , Travels & Logistics	28,534
Farmer Group Field Trips	8,096
Total	366,390

MANAGEMENT REPORT

Audit findings on the Accounts and Operations of Druk Metho

Non-reconciliation of bank balance

The Company has been using Tally ERP 9 for maintaining their records. However, the auditors observed that the Company does not reconcile bank transactions on a regular basis.

In order to ensure accuracy and completeness of the accounting records and transactions, we recommend that Druk Metho perform bank reconciliations on a monthly basis.

Management's Response:

As the management was in the process of formulating a proper Accounting system both for Druk Metho and Drachukha Flower group, we except the recommendation made for bank reconciliation statement on a monthly basis and will do as recommended by the auditors (Rinzing Financial Group).

Auditor's Further Comments:

No additional comments.

Non-payment of health contribution

The auditor's observed that the Company has not remitted the health contribution payments to the Regional Revenue and Customs Office ("RRCO") consistently. This could potentially result in the Company being penalized by the RRCO.

We recommend the Company to pay the health contribution in the timeline prescribed by the Department of Revenue and Customs.

Management's Response:

Management accepts the recommendation and will deposit the health contributions on a timely manner as recommended by auditor.

Auditor's Further Comments:

No additional comments.
