

STRENGTHENING OF TAX ADMINISTRATION PROJECT

IDB Loan Contract No. 4839/OC-BL

Financial Statements

For the year ended March 31, 2022

Contents

Pages

Independent auditor's report	1 - 3
Statement of Cash Received and Disbursements	4
Statement of Cumulative Investments	5
Notes to the Financial Statements	6-12

INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENTS

FINANCIAL SECRETARY GOVERNMENT OF BELIZE, MINISTRY OF FINANCE

Program: **Strengthening of Tax Administration Project (IDB Loan Contract No. 4839/OC-BL)**

Audit Opinion

We have audited the Financial Statements of the Strengthening of Tax Administration Project ("the Project") carried out by the Government of Belize through the Ministry of Finance and financed with resources of the Loan Contract N° 4839/OC-BL of the Inter-American Development Bank (IDB), which include the Statement of Cumulative Investments as of March 31, 2022, the Statement of Cash Received and Disbursements Made prepared for the year then ended, and the notes to the financial statements, which include a summary of the relevant accounting policies.

In our opinion, the accompanying Financial Statements of the Project for the year ended March 31, 2022, have been prepared in all material respects, in accordance with the financial reporting requirements of the contractual clause 7.03 of the Loan Contract 4839/OC-BL and the Audited Financial Reports and External Audit Management Handbook for projects financed by the IDB.

Basis of Audit 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 Government of Belize and The Ministry of Finance of Loan Contract No. 4839/OC-BL in accordance with the ethical requirements that are relevant to our audit of the financial statements in Belize, 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.



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INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENTS (continued)

Emphasis of Matter Paragraphs and Basis of Accounting, and Restriction on Distribution and Use

Without modifying our opinion, we draw attention to Note 2 to the financial statements, which describes the basis of accounting. The financial statements have been prepared to assist the Project 4839/OC-BL in accordance with the requirements of the Loan Contract N° 4839/OC-BL and the Audited Financial Reports and External Audit Management Handbook for Projects Financed by the IDB. As a result, the financial statements may not be suitable for another purpose. Our report is intended only for the Executing Agency of the Project and the IDB and should not be distributed to other parties other than the Bank or the Executing Agency of the Project. However, this report may become a public document, in which case its distribution would not be limited. Our opinion has not been modified in relation to this issue.

Management's Responsibility

Management is responsible for the preparation of these financial statements in accordance with the requirements established in the contractual clause 7.03 of the Loan Contract 4839/OC-BL and the Audited Financial Reports and External Audit Management Handbook for Projects Financed by the IDB. In addition, management is responsible for establishing internal controls as they determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our objective is to obtain reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with the 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 the financial statements.

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



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INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENTS (continued)

Auditor's Responsibility (continued)

- Identify and assess the risks of material misstatement of the financial statement, 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 omissions, 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 and for the purpose of expressing an opinion on the effectiveness of the Company's internal control, on which we have reported in a separate section of our report.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluate the overall presentation, structure, and content of the financial statements, including the corresponding notes and supplementary information, and whether the financial statement represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PKF Belize

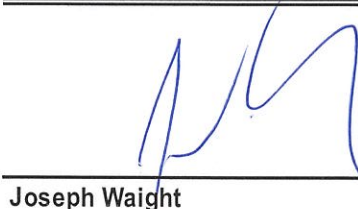
PKF Belize
Chartered Accountants
Belize City
July 18, 2022

GOVERNMENT OF BELIZE, MINISTRY OF FINANCE
STRENGTHENING OF TAX ADMINISTRATION
LOAN CONTRACT NO. 4839/OC-BL
STATEMENT OF CASH RECEIVED AND DISBURSEMENTS
FOR THE PERIOD ENDED MARCH 31, 2022 (IN US DOLLARS)

	Notes	March 31, 2022		March 31, 2021	
		<u>IDB</u>	<u>Total</u>	<u>IDB</u>	<u>TOTAL</u>
CASH RECEIVED					
Accumulated as at beginning of period	4	512,334	512,334	-	-
Activity during the period					
§ Disbursements (advances, reimbursements, direct payments)	4	6,450,000	6,450,000	512,334	512,334
§ Interest Received		-	-	-	-
Total Cash Received		<u>6,962,334</u>	<u>6,962,334</u>	<u>512,334</u>	<u>512,334</u>
DISBURSEMENTS MADE					
Cumulative cash at beginning of period		2,341,250	2,341,250		
Activity during the period					
§ Payments for goods and services		5,076,089	5,076,089	2,341,250	2,341,250
§ Refunds to IDB		-	-	-	-
Total Cash Disbursements	7	<u>7,417,339</u>	<u>7,417,339</u>	<u>2,341,250</u>	<u>2,341,250</u>
Available Cash as of End of Period	3	<u>(455,005)</u>	<u>(455,005)</u>	<u>(1,828,916)</u>	<u>(1,828,916)</u>



Michelle Longworth
Director General
Belize Tax Service



Joseph Waight
Financial Secretary
Ministry of Finance

Date: 18 July 2022

Date: 18/7/2022

The accompanying notes are an integral part of this financial statement.

GOVERNMENT OF BELIZE, MINISTRY OF FINANCE
STRENGTHENING OF TAX ADMINISTRATION
LOAN CONTRACT NO. 4839/OC-BL
STATEMENT OF CUMULATIVE INVESTMENTS (IN US DOLLARS)

INVESTMENT CATEGORY	Notes	Cumulative at the end of March 31, 2021			Movement during the period ended March 31, 2022			Cumulative at the end of March 31, 2022		
		IDB	GOV.	TOTAL	IDB	GOV.	TOTAL	IDB	GOV.	TOTAL
<u>1. Strengthening Tax Administration Governance</u>										
1.1 New business model and organizational structure, merging ITD and DGST		-	-	-	65,826	-	65,826	65,826	-	65,826
1.2 Internal Control Model		-	-	-	-	-	-	-	-	-
Total Component 1		-	-	-	65,826	-	65,826	65,826	-	65,826
<u>2. Improvement of Operational Process</u>										
2.1 Integrated taxpayer registration model		2,573	-	2,573	227,866	-	227,866	230,439	-	230,439
2.2 Human resource strengthening plan		3,200	-	3,200	29,328	-	29,328	32,528	-	32,528
2.3 Taxpayer segmentation and risk-based compliance management model		-	-	-	3,906	-	3,906	3,906	-	3,906
2.4 New audit model, based on wider range of examination and risk-based techniques		-	-	-	3,353	-	3,353	3,353	-	3,353
2.5 Enforcement collection model based on risk criteria		-	-	-	-	-	-	-	-	-
2.6 Taxpayer account model to provide the TA with fast taxpayer-centric overview		-	-	-	-	-	-	-	-	-
2.7 Invoicing control model comprising a strategy for further implementation of electronic invoice		-	-	-	-	-	-	-	-	-
Total Component 2		5,773	-	5,773	264,453	-	264,453	270,226	-	270,226
<u>3. Modernization of Technological Infrastructure</u>										
3.1 Information and Technology strategic plan		316,712	-	316,712	434,904	-	434,904	751,616	-	751,616
3.2 Implementation of the new ITAS		1,764,069	-	1,764,069	4,168,993	-	4,168,993	5,933,062	-	5,933,062
Total Component 3		2,080,781	-	2,080,781	4,603,897	-	4,603,897	6,684,678	-	6,684,678
<u>4. Project Management</u>										
4.1 Administrative costs		254,696	-	254,696	129,892	-	129,892	384,588	-	384,588
4.2 Evaluations		-	-	-	-	-	-	-	-	-
4.3 Audits		-	-	-	12,021	-	12,021	12,021	-	12,021
Total Component 4		254,696	-	254,696	141,913	-	141,913	396,609	-	396,609
<u>5. Contingencies</u>										
TOTAL		2,341,250	-	2,341,250	5,076,089	-	5,076,089	7,417,339	-	7,417,339

Michelle Longworth
Director General
Belize Tax Service

Joseph Waight
Financial Secretary
Ministry of Finance

The accompanying notes are an integral part of this financial statement.

**GOVERNMENT OF BELIZE, MINISTRY OF FINANCE
STRENGTHENING OF TAX ADMINISTRATION
LOAN CONTRACT NO. 4839/OC-BL
NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31, 2022 (IN US DOLLARS)**

1. Description of the Project

On November 1, 2019, the Government of Belize through the Ministry of Finance (MOF) signed a USD 14 Million Loan Contract Agreement (No. 4839/OC-BL) with the Inter-American Development Bank (IDB) for the execution of a five-year tax modernization project entitled "Strengthening of Tax Administration".

The main objective of the Project is to contribute to Strengthening Tax Administration system aimed at increasing tax revenue collection, through the following specific objectives: (a) increasing the effectiveness of the Government to collect taxes, through improvement in the tax administration governance and (b) increasing tax administration efficiency, through improvement in the operational processes and modernization of the technological infrastructure. These objectives will be achieved by improving tax administration governance and operational processes, and by modernizing the technological infrastructure.

The Project has three components which are described below.

1. Component I: Strengthening Tax Administration Governance

The objective of this component is to develop a new business model of the Tax Administration (TA). This component will finance the following:

- (a) The new business model, consolidating the Income Tax Department (ITD) and the Department of General Sales Tax (DGST), including: (i) implementation of new processes and procedures; (ii) implementation of strategic plan; and (iii) delivery of the workshops to disseminate the new business model.
- (b) An internal control model, including (i) operating manuals; (ii) a system to support the model's operation; and (iii) training in internal control techniques.

2. Component II: Improvement of Operational Processes

The objective of this component is implementing a series of integrated processes and improve staff skills to increase efficiency. This component will finance the following:

- (a) Integrated taxpayer registration model, common for all tax departments and systems designed to facilitate taxpayer registration and to ensure the adequacy and accuracy of taxpayer information, including: (i) definition of new processes and procedures; (ii) data cleansing and data migration to the new Integrated Tax Administration System (ITAS); and (iii) delivery of workshops to disseminate the new registration model.

1. Description of the Project (continued)

2. Component II: Improvement of Operational Processes (continued)

- (b) Human resource strengthening plan based on competence evaluation, comprising: (i) identification of skill gaps of TA personnel; (ii) implementation of an on-site training program; (iii) implementation of an e-learning platform; and (iv) delivery of workshops to disseminate the Project.
- (c) Taxpayer segmentation and risk-based compliance management model, including: (i) revision and adjustment of the existing processes and procedures to identify, prioritize, and mitigate risks in the TA operations; and (ii) delivery of workshops to disseminate the new model.
- (d) New audit model using a wider range of examination and risk-based techniques, comprising (i) revision and adjustment of the existing processes and procedures; (ii) implementation of analytic tools for data mining; and (iii) delivery of workshops to disseminate the new model.
- (e) Enforced collection model based on risk criteria, including: (i) definition of new processes and procedures; and (ii) delivery of workshops to disseminate the new model.
- (f) Taxpayer account model to allow the TA to have a fast taxpayer-centric overview, including: (i) revision and adjustment of the existing processes and procedures; and (ii) delivery of workshops to disseminate the new model.
- (g) Development of an invoicing control model comprising a strategy for further implementation of electronic invoice, including: (i) definition of new processes and procedures; and (ii) delivery of workshops to disseminate the new model.

3. Component III: Modernization of Technological Infrastructure

The objective of this component is to modernize the technological infrastructure to support the operations of the new TA Department. This component will finance the development and implementation, including training, of the following:

- (a) Information and technology strategic plan, including: (i) definition of the activities; (ii) installation of the equipment; (iii) implementation of the contingency environment; and (iv) delivery of workshops to disseminate the plan.
- (b) New Integrated Tax Administration System (ITAS), comprising: (i) registration; (ii) declaration processing and monitoring filers; (iii) payments and refunds processing; (iv) taxpayer account and revenue accounting; (v) collection; (vi) audit and case management; (vii) objections and appeals; (viii) taxpayers services; (ix) risk management; and (x) supporting processes, including reporting, statistics, and internal audit. The new system will be piloted on large taxpayers before being rolled out to the broader population.

1. Description of the Project (continued)

The Strengthening of Tax Administration project entails the modernization of the tax administration by consolidating the merge of former Income Tax Department (ITD) and the Department of General Sales Tax (DGST) into a single function-based tax administration and procuring and implementing a new Integrated Tax Administration System (ITAS).

The Ministry of Finance, as Executing Agency, established a Project Executing Unit (PEU) under the Office of the Director General of the Belize Tax Service. The PEU has direct responsibilities for the implementation of the IDB-funded Project "Strengthening of Tax Administration" (BL-L1031). The PEU has a functional project execution structure and is responsible for the planning, monitoring and evaluation; procurement administration; financial management; and technical administration.

The Project has a total cost of USD 14.0 million, to be fully funded by the IDB, with resources from the Single Currency Facility (SCF) of the Ordinary Capital (OC) Fund. Figure 1 presents the distribution of resources of the loan as set forth in the loan agreement.

Figure 1

COMPONENTS	* IDB	* PERCENTAGE
I. DIRECT COSTS	12,685,689	90.61%
Component I: Strengthening Tax Administration Governance	786,052	5.61%
1.1 New business model and organizational structure, merging ITD and DGST	461,090	3.29%
1.2 Internal Control Model	324,962	2.32%
Component II: Improvement of Operational Process	1,523,337	10.88%
2.1 Integrated taxpayer registration model, common for all tax departments and systems	230,439	1.65%
2.2 Human resource strengthening plan, based on competence evaluation	198,722	1.42%
2.3 Taxpayer segmentation and risk-based compliance management model	260,253	1.86%
2.4 New audit model, based on wider range of examination and risk-based techniques	460,253	3.29%
2.5 Enforcement collection model based on risk criterial	138,126	0.99%
2.6 Taxpayer account model to provide the TA with fast taxpayer-centric overview	138,126	0.99%
2.7 Invoicing control model comprising a strategy for further implementation of electronic invoice	97,418	0.70%
Component III: Modernization of Technological Infrastructure	10,376,300	74.12%
3.1 Information and Technology strategic plan	2,564,175	18.32%
3.2 Implementation of the new Integrated Tax Administration System (ITAS)	7,812,125	55.80%
II. ADMINISTRATIVE COSTS	988,300	7.06%
III. EVALUATIONS	183,616	1.31%
IV. AUDITS	48,085	0.34%
III. CONTINGENCY	94,310	0.67%
TOTAL	14,000,000	100.00%

* Amounts and percentages were updated based on PMR updated as of March 25th 2022. Changes were agreed with PEU and IDB during the administrative mission carried out in March 2022.

2. Significant Accounting Principles

- (a) Cash Basis Accounting - The financial statements have been prepared using the cash basis of accounting, recognizing revenue when the cash is received and recognizing expenses when the cash has been disbursed. This record-keeping modality differs from the International Public Sector Accounting Standard (IPSAS) under which transactions should be recorded as they are incurred and not when they are paid. However, the IPSAS have been applied to these circumstances discussed in the chapter "Cash Basis IPSAS: Financial Reporting under the Cash Basis of Accounting."
- (b) Currency - The program's accounting records are maintained in local currency. Project expenditures made in Belize dollars (BZD) are converted at the exchange rate of one USD to two BZD (USD 1.00 to BZD 2.00).
- (c) No depreciation is charged on fixed assets acquired with Program funds.
- (d) The Program's Statement of Cash Receipts and Disbursements reflects receipts and disbursements relating to IDB Loan Contract No. 4839/OC-BL.
- (e) The Program's funds are deposited into the Strengthening of Tax Administration Central Bank Account No.311119.

3. Available Cash Balance

The available cash balance is as follows:

	As at March 31, 2022	As at March 31, 2021
	USD	USD
	2022	2021
Central Bank of Belize Account No. 311119		
Statement Balance at March 31, 2022	538,048	393,997
Pending reimbursement to GOB for project expenditures incurred during audited period	(993,053)	(2,222,913)
Available Cash Balance at March 31, 2022	(455,005)	(1,828,916)

At March 31, 2022 the project's available cash balance in the amount of (USD 455,005) resulted from project expenditures processed by the Government of Belize within the period April 1, 2021 to March 31, 2022 that is pending reimbursement at the end of the audited period. Of importance three large payments were processed in January 2022. (1) USD 540,840 made to Belize Tax Services for contract tax withheld from Data Torque Bahamas Limited and C2D and Smart Solutions International; (2) USD 23,794 to Dolphin Productions for promotional items for soft launch; and (3) USD 57,564 to Chamberlain Consulting Ltd.

4. Advances and Justifications

At March 31, 2022, the amount pending justification to IDB amounted to USD 1,855,732, which represented expenditures incurred but not yet reported to IDB at the end of this audited period.

Disbursements	Ending March 31, 2021	Ending March 31, 2022	Cumulative at March 31, 2022
	USD	USD	USD
1st Advance of Funds	139,700	-	139,700
2nd Advance of Funds	372,634	-	372,634
3rd Advance of Funds	-	2,300,000	2,300,000
4th Advance of Funds	-	2,350,000	2,350,000
5th Advance of Funds	-	1,800,000	1,800,000
Total disbursements	512,334	6,450,000	6,962,334
Less: 1st Advance Justification	(118,292)	-	(118,292)
2nd Advance Justification	-	(320,469)	(320,469)
3rd Advance Justification	-	(2,244,272)	(2,244,272)
4th Advance Justification	-	(2,423,569)	(2,423,569)
Pending Justification	394,042	1,461,690	1,855,732

5. Procurement of Goods and Service

Status of Processes to Date	Ending March 31, 2021	%	Cumulative-Ending March 31, 2022	%
	USD		USD	
Not started	4,636,969	33%	2,873,083	21%
Ongoing/Underway	441,882	3%	1,475,381	11%
Awarded (includes completed)	8,921,149	64%	9,651,536	69%
TOTAL	14,000,000		14,000,000	100%

6. Reconciliation between the Statement of Cash Received and Disbursements Made and the Statement of Cumulative Investments

	Cumulative as at March 31, 2021	Year Ended March 31, 2022	Cumulative as at March 31, 2022
	USD	USD	USD
Disbursement made by the PEU as per Statement of Cumulative Investments	2,341,250	5,076,089	7,417,339
Cumulative Investments	2,341,250	5,076,089	7,417,339
Total Cash Received via IDB	512,334	6,450,000	6,962,334
Less: Cumulative Disbursements for the Period	(2,341,250)	(5,076,089)	(7,417,339)
Cash Received Less Disbursement	(1,828,916)	1,373,911	(455,005)

7. Reconciliation by Category of Investment of the Program's Records with the IDB's Records as of March 31, 2022.

CATEGORY	Cumulative Balance as per:		Variance	Explanation for Variances
	Program's Records (Statement of Cumulative Investments)	IDB's Records (OPS 1 Executive Financial Summary)		
<u>1. Strengthening Tax Administration Governance</u>				
1.1 New business model and organizational structure, merging ITD and DGST	65,826			
1.2 Internal Control Model				
Total Component 1	65,826	3,353	62,473	
<u>2. Improvement of Operational Process</u>				
2.1 Integrated taxpayer registration model	230,439			
2.2 Human resource strengthening plan	32,528			
2.3 Taxpayer segmentation and risk-based compliance management model	3,906			
2.4 New audit model, based on wider range of examination and risk-based techniques	3,353			
2.5 Enforcement collection model based on risk criteria	-			
2.6 Taxpayer account model to provide the TA with fast taxpayer-centric overview	-			
2.7 Invoicing control model comprising a strategy for further implementation of electronic invoice	-			
Total Component 2	270,226	152,928	117,298	
<u>3. Modernization of Technological Infrastructure</u>				
3.1 Information and Technology strategic plan	751,616	-		
3.2 Implementation of the new ITAS	5,933,062	-		
		-		
Total Component 3	6,684,678	4,620,377	2,064,301	
<u>4. Project Management</u>				
4.1 Administrative costs	384,588	-		
4.2 Evaluations	-			
4.3 Audits	12,021			
Total Component 4	396,609	329,944	66,665	
<u>5. Contingencies</u>		-	-	
Total at March 31, 2022	7,417,339	5,106,602	2,310,737	

On March 31, 2022, the variance breakdown of USD 2,310,737 was as follows:

- a) USD 1,855,732 represents pending justification for project expenditures incurred but not yet reported to IDB during this audited period.
- b) USD 455,005 represents pending reimbursement to GOB for project expenditures incurred during this audited period to be subsequently reported to IDB.