

1. Audit Memorandum

Introduction

We have completed our audit of the special purpose projects financial statements of the Public Association "Transparency International Moldova" (TI-M) Activities within 2014 in order to find out whether they satisfy the Grant Agreements concluded for approved activities in 2014 between donating agencies and Public Association "Transparency International Moldova".

Content and Scope of the audit

The main purpose of the audit control has been to determine the reliability of financial statements and compliance of economic and financial operations carried out by TI-M, with the conditions stipulated by donors on implementation of the Projects and standard acts of the Republic of Moldova.

According to the specific of TI-M activity, the audit was based on:

- Audit of financial means of program activity and administrative costs of TI-M office (Balance sheets of incomes and expenditures and balance of resources transferred by donors to TI-M);
- Audit of financial reports presented by TI-M donors for the implementation of the projects (Reports on the Received and Used Targeted Financing for Projects within 2014).

The Primary documents and accounts of the organization were verified and analyzed within the audit, which included the control of:

- The financial statements of TI-M comply with the Agreements with donors;
- The grant funds were kept on bank accounts and bookkeeping of the projects was kept in a separate registry;
- The financial statements is carried out in accordance with the approved project budgets and contains explanations of significant deviation;
- Explanations of these budget deviations are not contradicted by any other information reviewed by the auditor;

- The reporting agrees with the accounts of the project budget and provides a true and fair view;
- The final progress report is complete and correct;
- The Final report has been signed by the manager within the Public Association TI-M.

The control was performed in compliance with International Standards on Auditing (with the application of ISA 700 and 800/805). Those standards require that I follow professional ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial report is free from material misstatement.

The control was performed by sections of the financial statement based on the detailed and selective methods.

Material findings

The total expenditure which is the subject of this expenditure verification amounts to EUR 159 818 for Activities (see p.4 Final Progress Report and annex 1).

The Expenditure Coverage Ratio is 75%. This ratio represents the total amount of expenditure verified by us expressed as a percentage of the total expenditure which has been subject of this expenditure verification.

Having performed the audit procedures, we can state with a sufficient degree of certainty that financial statements correspond to the accounting data and supporting source documents:

- All the received funds are registered in accounting books in the total volume and at the corresponding exchange rate;
- All the money transfers are made on the basis of received invoices, and all the essential expenses are incurred on the basis and correspond to the conditions of agreements with the corresponding organizations and annexes to agreements;
- Direct costs of staff corresponding to gross salaries (including social and medical insurance) and corresponding tax reporting;
- Accounting books agree with cash flow in bank accounts and cash register;
- Project expenses for the reporting period (January – December, 2014) correspond to the budget items, and amounts presented in the report do not differ significantly from the amounts planned in the budget;

- The assets procured by means of financing have been allocated according to the annexed acceptance certificates signed by the corresponding organizations;
- All the operations in the accounting books are reflected at the period of actual occurrence.

This information is intended solely for the management of the Public Association "Transparency International Moldova" and donating agencies and is not intended and should not be used by anyone other than the specified parties.

Director of Audit Firm, Auditor
June 26, 2015



Alla Kulikovskaia

2. Report on Factual Findings

To: The Management of Public Association "Transparency International Moldova"

We have performed the procedures agreed in our engagement letter dated 18 May 2015 and set out below, which were agreed to by the management of Public Association "Transparency International Moldova" (hereinafter referred to as "TI-M") in respect to the Action solely to assist the management of the Association in evaluating whether the financial report for the period 01 January 2014 to 31 December 2014 (hereinafter referred to as the "Financial Report") has been prepared in accordance with requirements of the Contracts and Agreements concluded between the Contracting Authorities of the one part and TI-M (hereinafter referred to as the "Beneficiary") of the other part.

Our engagement was undertaken in accordance with the International Standard on Auditing (with the application of ISA 700 "Forming an opinion and reporting on financial statements", ISA 800 "Audits of Financial Statements prepared in accordance with special purpose frameworks" and ISA 805 "Audits of single Financial Statements and special elements, accounts or items of a Financial Statement").

The procedures were performed solely to assist the management of the Association in connection to the purpose defined above. The procedures performed are summarized below.

Procedures performed according to the International Standard on Auditing

1. We have obtained from the management of the Projects the following information:
 - Copies of the Agreements (signed by the management of the Association as the Beneficiary and its annexes.
 - The Financial Report for the period 01 January to 31 December 2014 (which includes a narrative and a financial section).
2. We have verified that the Financial Report complies with the following conditions of the Contract, namely whether:
 - The Financial Report was prepared in accordance with the model in Annexes of the Contracts with financing organizations;
 - The Financial Report was prepared in order to cover the Action as a whole, regardless of which part of it is financed by donors;
 - The Financial Report was prepared in the language of the Grant Contracts, namely in English;
3. We have examined whether the Beneficiary has complied with the following rules for accounting and record keeping in accordance with the requirements of the IAS, namely whether:

- The Beneficiary must have a double-entry book-keeping system;
 - The accounts and expenditure relating to the Action must be easily identifiable and verifiable;
 - The accounts must provide details of interest accrued on funds paid by donors
4. We have reconciled the selected information in the Financial Report to the Beneficiary's accounting system and records.
 5. We have verified that the amounts of expenditure incurred in a currency other than the Euro and USD - viz. MDL, have been converted at the exchange rate calculated at the date of transfer of funds from Euros and USD to Moldovan Lei.
 6. We have verified that the budget in the Financial Report corresponds with the budget of the Grant Contracts (authenticity and authorization of the initial budget and its subsequent amendments according to addendums to the Grant Contract) and that the expenditure incurred was indicated in the budgets of the Grant Contracts.
 7. We have selected all items of expenditures covering 75% of the total expenditure incurred. We have ensured that the items selected represent 75% of the expenditure amounts presented in each heading and subheading of the financial report.
 8. We have verified and commented on, for each expenditure item selected in accordance with procedure 8, the eligibility criteria set out below.

8.1 Costs actually incurred

We have verified that the expenditure for the selected items was actually incurred by and relates to the Beneficiary. For this purpose we have examined supporting documents (e.g. invoices, contracts) and proof of payment. We have also examined proof of work done, goods received or services rendered, where applicable.

8.2 "Cut-off - Implementation period"

We have verified that the expenditure for the selected items was incurred during the implementation period of the Project and was recorded accordance with the cash basis of accounting.

8.3 Budget

We have verified that the expenditure incurred for all item was indicated in the budget.

8.4 Records

We have verified that the expenditure for the selected items is recorded in the Beneficiary's accounting system and was recorded in accordance with the measurement and recognition criteria of the applicable accounting standards.

8.5 Evidence

We have verified that the expenditure for the items:

- Is identifiable, verifiable and recorded in the accounting records of the TI-M;
- Is supported by proof of procurement procedures such as financial documents, acts, factures;
- Has proof of commitments such as contracts and order forms, if applicable;
- Has proof of delivery of services such as approved reports, time sheets (including relevant documentation and material obtained, certificates), etc.;
- Has proof of receipt of goods such as delivery slips from suppliers, proof of completion of works, such as acceptance certificates, proof of purchase such as invoices and receipts, proof of payment such as bank statements;
- For staff expenses, is supported by payroll records, contracts, salary statements, time sheets;
- Is supported by evidence in documentary form, whether paper, electronic or other medium;
- Is supported by evidence in the form of original documents rather than copies;
- Is supported by evidence from independent sources outside the entity (an original suppliers invoice or contract).

- 8.6 *Valuation*
We have verified that the value of the items of expenditure agrees with underlying documents (e.g. invoices, salary statements etc) and that correct exchange rates are used where applicable.
- 8.7 *Classification*
We have examined the nature of the expenditure for the selected items and we have verified if the expenditure item has been classified under the correct (sub) heading in the Financial Report.
- 8.8 *Compliance with Procurement, Nationality and Origin Rules*
We have examined, where applicable, which procurement, nationality and origin rules apply for a certain expenditure (sub) heading, a class of expenditure items or an expenditure item. We have verified whether the expenditure was incurred in accordance with such rules by examining the underlying documents of the procurement and purchase process.
9. We have verified that the expenditure for a selected item does not concern an ineligible cost.
10. We have examined whether revenues which should be attributed to the Action (including other sources of financing).

We report our findings below:

Financial Report for the Grant Contracts

The audit has examined the report for the period January 01, 2014 – December 31, 2014. The report was based on actual data from accounting books. The auditors have compared the data presented in the report with the primary documents and entries in accounting books. Financial data presented in the descriptive report does not contradict the amounts of expenses in the report.

Rules for Accounting and Record Keeping.

Significant Accounting Policies and Exchange Rates

Basis

The financial schedules of the Projects are drawn up in accordance with the National Accounting Standards adopted in 1998 on the basis of the International Financial Reporting Standards (IFRS).

The amounts in financial statements are expressed in MDL, EUR and USD. The main principle used in accounting is the principle of assessment according to the initial value.

At drawing the financial statements according to the National Accounting Standard No.5, the accrual method is used, which means that expenditure related to the use of targeted financing is recognized in accounting books at the moment of incurred and payment.

Exchange Rates

All the expenses are incurred and paid in Moldovan Lei (MDL).

For the financial reporting purposes, the organization used the exchange rate as of the date of conversion from Euros to Moldovan Lei or in accordance with the instructions by donors:

	Average exchange rate MDL/€	
ENPI/2012/310-064	18.6553 MDL for 1 EUR	Average exchange rate calculated at the date of transfer of funds from EUR to Moldovan Lei
Col ENPI 2013/313-750	18.3580 MDL for 1 EUR	Average exchange rate MDL/EUR =0.05509 calculated according to the average European exchange rate for the period (source – http://ec.europa.eu/budget/infoeuro/index.cfm?)
NED Grant 2014-459	18.3586 MDL for 1 EUR 13.7837 MDL for 1 USD	exchange rate calculated at the date of transfer of funds from USD to Moldovan Lei
SOROS Grant 14008	18.5916 MDL for 1 EUR 13.5305 MDL for 1 USD	exchange rate calculated in USD at the date of transfer of funds from Soros Foundation Moldova in Moldovan Lei
EEFM Grant 186	18.6717 MDL for 1 EUR 14.0855 MDL for 1 USD	exchange rate calculated in USD at the date of transfer of funds from Soros Foundation Moldova in Moldovan Lei
SCO Grant No.81026068/1	18.6269 MDL for 1 EUR	Average exchange rate calculated at the date of transfer of funds from EUR to Moldovan Lei

Reconciliation of the Financial Report to the Beneficiary's Accounting System and Records

We have audited a sample of 75% of accounts reflecting fixed asset and inventory transactions, payroll accounting, accounts receivable and payable, as well as tax and fee obligations.

The auditors examined entirely the accounts corresponding to cash flow in bank accounts in MDL, EUR and USD (i.e. bank excerpts, payment orders, cash receipts and expense documents). Full audit was performed also of the project targeted financing expenditure and the expense reports of advance holders.

As a result of general examination, selected testing and analysis of different sections of financial statements, the auditors have established the following:

- All the source documents, accounting books and financial statements are kept in acceptable conditions;
- Accounting is performed at an acceptable professional level. There is sufficient evidence (i.e. all the corresponding agreements, acts, source documents, accounting books, tax statements, and other necessary documents) to support project expenditure;
- TI-M presents regularly reports to donors within the terms established in contracts with the financing organization;
- While examining the accounting and internal control systems, it was established that accounting was automated with the help of "1C Accounting" software and MS Excel spread sheets provided by donors; there is an analytical record per project budget items by sections stipulated in the budget annexed to donor agreements.

Please note the basic aspects in the system of reporting on financial statements as described under the following sections.

Cash

The objective of the audit was to establish correspondence of cash accounting methods with regulatory documents in force in the Republic of Moldova.

The organisation received donations for the projects in bank accounts and all the cash flow in these accounts was exclusively related to the given project.

The auditors established that in general cash transactions corresponded to the legislation in force and payments were made for project purpose.

The cash balance in the bank account of TI-M corresponded to the bank excerpts and petty cash register.

Managing Procurement of Goods, Works and Services

During our audit procedures and tests performed we have identified that:

- The audit of expense reports of individuals who received cash, established that within the reporting period all the expense reports were signed and approved accordingly by the manager and accountant of TI-M;
- Cash payment is accepted only on the basis of supporting documents. This condition is properly respected by the organization;
- All the source documents of the basis of accounting records are fulfilled in compliance with the legislation in force and have supporting signatures, tax codes and stamps;
- The received material assets have been registered on the basis of payment documents and tax bills in the amounts indicated in the accompanying documents;
- Expenses have been reflected in accounting on the basis of material asset retirement certificates, in compliance with project budget items;
- Consumables agree with the inventory documents at the corresponding date;
- The auditors have not revealed any cases of covering personal expenses of the staff or making other payments not stipulated in the budget.
 - There were no issues identified by us under area "Managing procurement of goods, works and services".

Long-Term Assets

Intangible fixed assets in TI-M consist from software "1C" Accounting Software and Video spots. At the end of the reporting period, all the software programs were functioning and their balance sheet cost amounted to 0 MDL.

Tangible fixed assets are presented in accounting as computers, equipment and furniture with the balance value of MDL 25 686 (EUR 1 352).

Recommendation: To write off intangible fixed assets, as stipulated by the Guidelines on the Particular Qualities of Accounting in Non-Profit Organizations, in 2015. In addition, to transfer them to new accounts in financial reporting as stipulated by the National Accounting Standards and Guidelines recommended for implementation by entities from January 1, 2014 and mandatory from January 1, 2015.

Economical Conduct of Business and Effective Use of Financial Resources

Cost-effectiveness analysis of financial activity under the Projects was conducted for the following items:

Planning of Project Activities

Due to the fact that projects activities were carried out more than one year and funding was provided in unequal shares, planning and allocation of financial resources, as well as planning of activities and events was the key to successful implementation for the organization.

On the basis of the contracts and project budgets, TI-M managers planned their activities so that all the contractual conditions with donors were met by the final stage of the project.

In particular, the main areas of activity were identified, the potential suppliers of goods and services studied, and major suppliers selected on a competitive basis. These facts are proven by documents, contracts and business correspondence of TI-M management.

Human Resource Management

Agreements on fulfilment of responsibilities have been drawn up in writing for full-time and part-time staff, taking into account the salary approved in the project budget.

Administration has assigned the responsibilities and authorities for the work under the project in a rather detailed way, as indicated in specific agreements with employees. Also they defined the limits of responsibility for failure or improper performance of the contract.

The auditors believe that such measures are sufficient and necessary in the work under the project.

Adequacy of Internal Control System

TI-M allowed for controlling the whole process of financial transactions within the projects: starting from approval and selection of suppliers of goods and services, procurement authorization, rational spending of cash and ending with control over the use of goods and materials. This is confirmed by the availability of acts on the movement of tangible assets, control over their use, as well as acts on control over the cash advance on account. The work of the staff was also controlled. Working time was calculated and acts on the delivery of works and services drawn up.

The result of TI-M activities and the financial report for donors as of December 31, 2014 were approved at the TI-M Executive Board Meeting (Minutes No. 3 dated March 25, 2015).

In general, the auditors confirm the adequacy of the internal control system for the amount of work on the audited project.

Effectiveness of Project Financial Costs

When making purchases, TI-M administration studied the market of goods and services, taking into account the quality and price at the local level, which is evident from the proposals, price lists and business correspondence.

The main expenditure for salaries, rent, travel expenses, and transportation services correspond to the level of local prices and raise no doubts as to their reliability. The use of vehicles is supported by acts, which indicate direction and time of use. The use of fixed and mobile telephony is controlled by printouts of calls received from telephone centres, and has been also verified by the auditors.

Given the above records, the auditor considers that misuse of funds is unlikely to happen.

Procedures to Verify Conformity of Expenditure with Budget and Analytical Review

All the project expense documents were arranged and registered in separate analytical files as per budget items stipulated in donor agreements.

Every file contains information about the date, origin and purpose of the expense document, as well as the quantity and value in local currency.

Financial documents related to a particular expense budget item are organized in a separate file and presented in original copy.

The auditors have not identified any divergence between the accounting books of primary financial documents and the information presented in the financial report.

Compliance to the Budget

The following tables summarize the expenses incurred by the management of the TI-M and reported within the period from January 1, 2014 to and including December 31, 2014 compared to the budget items and audited expenditure.

Program Expenditure of Funds Transferred by Donors to TI-M

Items	Expenditure	Budget	%%	Notes
Program Activities				
"National Integrity System Assessments in European Neighbourhood East region" Project (Grant contract: ENPI/2012/310-064	€ 39 993,97	€ 96 080,85	42	The activities under this project will continue until August 2015
"Engaging Civil Society in Monitoring Conflict of Interest Policies" Project COI (Grant contract no.213-313-750)	€ 57 283	€ 134 909	42	The activities under this project will continue until July 2015
"Monitoring Conflict of Interest Policy" Project No 2014-459 funded by National Endowment for Democracy (NED)	\$ 5 554	\$ 18 320	29	The activities under this project will continue until April 2015
"Monitoring the implementation of anti-corruption policies in central public authorities in 2013" for the period 2014 funded by Soros Foundation Moldova, Grant contract Nr.14008	\$ 22 007	\$ 22 353	98	Project was finished in July 2014, and balance - \$ 346 was refund to Soros Foundation
"Institutional development of Transparency International Moldova" Grant 186 funded by East European Foundation Moldova	\$ 46 662	\$ 55 986	83	The activities under this project will continue until March 31, 2015
"Supporting Legal Advisor Services" Project funded by Swiss Cooperation Office in Moldova, Grant Contract No. 81026068/1	€ 6 801	€ 21 040	32	The activities under this project will continue until January 31, 2015

Overall, the budget targeted financing was executed by 72 % and all the grant funds were spent for projects objectives.

We have verified that the Financial Report complies with the conditions of the Contracts – the Financial Reports was prepared in accordance with the model in Annexes of the Agreements with financing organizations (see annexes 2-7 in Financial report).

Analyzing the above-presented information, we can draw a conclusion that TI-M Association has generally covered all the directions of its activity and has spent targeted financing in compliance with the budget items.

As a result of the project expenditure control, the auditors have not revealed any indications and amendments to the Budget on the part of the Program Director in business correspondence.

Procedures to Verify Selected Expenditure

Eligibility of Costs

We have reported that financial documents, including per each expense item separately, are gathered in separate files and there is a financial statement attached for each section, indicating the date, the document number, destination of payment and amount in the national currency – MDL.

We have reviewed the internal control and accounting systems implemented by TI-M Association as part of our audit procedures:

- The organization employs corresponding authorization procedures (i.e. all the expenses are authorized by the Director of the organization), and there is a segregation between authorization and payment transactions (i.e. all payments are authorized by the manager and accountant);
- The invoices presented to the organization for payment have signatures of the Director and notes of expense items according to the budget;
- Each payment is supported by documents of receiving materials or indicating rendered services (i.e. tax bills, acceptance certificates and receipts complying with the local legislation in force). In our opinion, the authenticity of these documents does not raise doubts;
- All selected expenditure was incurred during the implementation period of the activities;
- The expenditure corresponded to budget items, was necessary for the implementation of activities and was classified under the correct (sub) heading of the Financial Report;
- The cost of tangible assets and services received within the project correspond to the level of local prices;
- The assets procured by means of grants exist and belong to TI-M.