



**Management Letter
on the Audit of Financial Statements**

for the Period from 1 January to 31 December 2015

**of the Public Association
“Transparency International - Moldova”**

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1. Introduction

We have completed our audit of the special-purpose project financial statements of the Public Association "Transparency International Moldova" (TI-M) as of 31 December 2015 and for the period from 01 January to 31 December 2015 prepared in accordance with provisions stipulated in the Financing Agreement signed between TI-M and donors.

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 YFCM, 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 of resources transferred by donors and other contribution);
- Audit of financial reports presented by TI-M donors for the implementation of the projects and other activity.

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 Agreement 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 Financial report for the period of January – December 2015 is complete and correct;

- The Financial 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 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 MDL EUR 158 859 for Activities (see p.4 of Progress Report for 2015).

The Expenditure Coverage Ratio is 80%. 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:

- Design and operation of the accounting system of the Projects, i.e. documentation, authorization of transactions, acquisition of goods and services, business trips documentation, book-keeping and accounts reconciliation;
- All the necessary supporting documents, records, and accounts have been kept in respect of all the Project's revenue and expenses;
- The received funds have been spent efficiently for the purpose of the Projects in accordance with the budget and other clauses set by the Grant Agreements;
- All the expenses are properly documented and are in accordance with the budget enclosed to the Grant Agreements with financed organizations;
- All the expenses have incurred in accordance with the legislation in force; and
- All the assets acquired by means of the grants exist.

Use of Information

This information is intended solely for the purpose set forth above under the objective.

This letter is prepared solely for your own confidential use and solely for the purpose of submission by you to the donor in connection with the Agreements.

This management letter may not be relied upon for any other purpose, nor may it be distributed to any other parties.

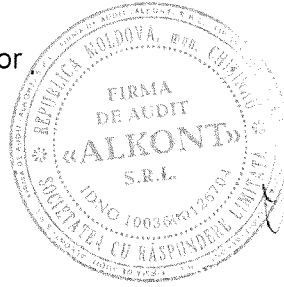
This letter relates only to the Financial Reports specified above and does not extend to any of your financial statements.

This information is intended solely for the management of TI-M and donors, while ALKONT Audit Firm is not responsible before the third parties that could use this information for any purposes.

Director of ALKONT Audit Firm, Auditor

Alla Kulikovskaia

June 16, 2016



A handwritten signature in black ink, appearing to read "Alla", written over the right side of the circular stamp.

2. Procedures Performed and Factual Findings

We report our findings below:

Subject	Observation	Notes and Recommendations
<p>Financial Reports for the Financial Agreement The audit has examined the Financial reports for the period January 01, 2015 – December 31, 2015.</p>	<p>Does the Financial Project Reports for projects match with the Bookkeeping? Does the Financial Project Reports correspond with the Financial Agreement with donors? Do the received funds match with the Bookkeeping?</p>	<p>The auditors have compared the data presented in the reports 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. The reports based on actual data from accounting books. <i>We have nothing to report.</i></p>
<p>Rules for Accounting and Record Keeping. Significant Accounting Policies 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).</p>	<p>Does the Financial Project Reports for projects was drawing in according with International Financial Reporting Standards and local instructions of accounting in non-profit organizations? Does the applicable provisions of the accounting software TI-M's accounting policies?</p>	<p>The main principle used in accounting is the principle of assessment according to the initial value. At drawing the financial statements according to the Local Accounting Standards, the cash method is used, which means that expenditure related to the use of targeted financing is recognized in accounting books at the moment of payment indifferent of incurred. Necessary to modify the actual accounting policy in compliance with transition to International accounting standards and specifics of accounting in non-profit organizations. There is a need to apply accrual method in accounting in 2015 In 2015 the existing accounting system should be updated in accordance with the new requirements of the local legislation entered in to force since the January 1, 2015. <i>Last reporting period auditor recommends to introduce the corresponding amendments to the accounting policy and chart of accounts.</i> <i>In the Reporting period were introduced:</i> - <i>New accounting Policy,</i> - <i>the accounting software has been adjusted</i></p>
<p>Exchange Rates</p>	<p>Does the Bookkeeping match with the Bank Account Statement and cash Book? Does the organization used correct the exchange rate as of the date of conversion from Euros to Moldovan Lei?</p>	<p>All the expenses are incurred and paid in Moldovan Lei (MDL). For the financial reporting purpose the organization used the exchange rate as of the date of conversion from Euros and USD to Moldovan Lei: (see p.IV. Explanation notes to Financial Statements, "Incomes" on paj.6) <i>We have nothing to report.</i></p>

<p>Reconciliation of the Financial Report to the Beneficiary's Accounting System and Records</p> <p>We have audited a sample of 80% of accounts reflecting assets and inventory transactions, payroll accounting, accounts receivable and payable, as well as tax and fee obligations.</p>	<p>Does the Bookkeeping match with the Receipts?</p> <p>Is there an adequate Bookkeeping, including Journal and General Ledger?</p> <p>Are there proper Receipts for the transactions?</p>	<p>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; 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.</p>
<p>Cash</p> <p>The objective of the audit was to establish correspondence of cash accounting methods with regulatory documents in force in the Republic of Moldova.</p>	<p>Does the organization all received donations for the project was used exclusively related to the given projects?</p>	<p><i>We have nothing to report.</i></p> <p>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</p>
<p>Receivables and Liabilities</p>	<p>There are debtors and creditors of these projects account?</p>	<p><i>We have nothing to report.</i></p> <p>We report: In accounting per activities: Receivables: 74 771 MDL (3 481 EUR) - for telephone services - 2 54 EUR, for rent - 3 223 EUR and local taxes - 4 EUR. Short-term Liabilities: 11 556 (EUR 538) include the Liabilities for personnel Most of them have already been paid in 2016. We have nothing to report.</p>
<p>Managing Procurement of Goods, Works and Services</p>	<p>Does the TI-M have copies of all valid essential contracts (rental, service agreements)?</p> <p>Does the TI-M have all financial documents (invoices, acts, factures, bank excerpts)?</p>	<p>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</p>

		<p>retirement certificates, in compliance with project budget items;</p> <p>- Consumables agree with the inventory documents at the corresponding date;</p> <p>The auditors have not revealed any cases of covering personal expenses of the staff or making other payments not stipulated in the budget.</p>
<p>Compliance with Tax Legislation</p>	<p>Does the financial document and transactions correspond Tax Legislation in Moldova</p>	<p><i>There were no issues identified by us under area "Acquisitions".</i></p> <p>According to the tax legislation, organisations carrying out economic activities must calculate and pay the following taxes and fees: individual income tax, social and health insurance dues, individual pension dues. Within the audited period, TI-M Association regularly calculated and paid all the taxes and fees and reported to the corresponding state authorities.</p>
<p>Economical Conduct of Business and Effective Use of Financial Resources <i>Planning of Project Activities</i></p>	<p>Does the Association managers planned their activities throughout the year activities?</p>	<p><i>We have nothing to report.</i></p> <p>Association 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.</p> <p>These facts are proven by documents, contracts and business correspondence of TI-M Public Association management.</p>
<p>Human Resource Management</p>	<p>Do the salaries of Project personnel match with existing and property signed employment contracts and does working hour recording exist?</p> <p>Does the TI-M have social security expenses, including pensions and taxes, been recorded and paid to relevant authorities in accordance with the national legislation?</p>	<p>The result of TI-M activities and the financial report for donors as of December 31, 2015 were approved at the TI-M Board (April 27, 2016). <i>We have nothing to report.</i></p> <p>We have verified that the expenditure for the salary items is supported by contracts, payroll records, salary statements, time sheets;</p> <p>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.</p> <p>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 work of the staff was also controlled. Working time was calculated and acts on the delivery of works and services drawn up.</p>
		<p><i>The auditors believe that such measures are sufficient and necessary in the work under the projects.</i></p>

<p>Effectiveness of Project Financial Costs</p>	<p>Does the project expenditure correspond to the level of local prices?</p>	<p>When making purchases, TI-M Public Association 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 fixed and mobile telephony is controlled by printouts of calls received from telephone centres, and has been also verified by the auditors.</p> <p><i>Given the above records, the auditor considers that misuse of funds is unlikely to happen.</i></p>
<p>Procedures to Verify Conformity of Expenditure with Budget and Analytical Review</p>	<p>Are the recorded expenses in the Financial Project Report in line with the approved original budget? Does the opening balance of funds correspond with the audit report of last year?</p>	<p>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 opening balance of funds correspond with the audit report of last year and the closing balance of funds correspond with bank confirmation on 31.12.2015. <i>The auditors have not identified any divergence between the accounting books of primary financial documents and the information presented in the financial report.</i></p>
<p>Procedures to Verify Selected Expenditure Eligibility of Costs</p> <p>We have reviewed the internal control and accounting systems implemented by TI-M Association as part of our audit procedures:</p>	<p>Are there explanations of TI-M managers for deviations from the budget by +/-10%? Is the internal control system of the TI-M in place? Are there any material weaknesses that the TI-M should improve? Is the approved Financial Project Reports free of material misstatement?</p>	<p>Significant deviations from the budget have been agreed with donors.</p> <p>- 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);</p> <p>- The invoices presented to the organization for payment have signatures of the Director and notes of expense items according to the budget;</p> <p>- Each payment is supported by documents of receiving materials or indicating rendered services (i.e. tax bills, acceptance certificates and</p>