



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

for the Period from 1 January to 31 December 2016

**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 2016 and for the period from 01 January to 31 December 2016 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 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 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 2016 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 117,907 for Activities (see p.4 of Progress Report for 2016).

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-Moldova 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



A handwritten signature in blue ink, appearing to read "Alla Kulikovskaia".

Alla Kulikovskaia

June 27, 2017

2. Report on Factual Findings

We report our findings below:

1. Financial Reports for the Financial Agreement

Observation: Does the Financial Project Reports for the period of January 01, 2016 – December 31, 2016 match with the Bookkeeping?

Do the received funds match with the Bookkeeping?

Notes and Recommendations: The auditors have compared the data presented in the Project 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.

We have nothing to report.

2. Rules for Accounting and Record Keeping.

Observation: Does the Financial Project Reports for activities was drawing in according with International Financial Reporting Standards and local instructions of accounting in non-profit organizations?

Does the applicable provision of the accounting software TI-Moldova's accounting policies?

Notes and Recommendations:

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 and incurred.

3. Exchange Rates

Observation: 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 and Dollars USA to Moldovan Lei?

Notes and Recommendations:

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)

Assets and liabilities denominated in foreign currencies (EUR) and presented in annual financial statements are converted into Moldovan Lei at the official exchange rate set by the National Bank of Moldova as of December 31, 2016 – MDL 20,8895 for 1 EUR.

The difference between the calculated and reported average exchange rate is registered as difference on exchange rate.

We have nothing to report.

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

Observation: Does the Bookkeeping match with the Receipts?

Is there an adequate Bookkeeping, including Journal and General Ledger?

Are there proper Receipts for the transactions?

Notes and Recommendations:

In conformity of local legislation the TI-Moldova modified software for needs of the organization.

In 2016 management introduced changes and additions to the accounting policy, in accordance with the applied rules of the local legislation for NGO.

As a result of the above, in the accounting statements:

- all the source documents, accounting books and financial statements are now 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;
- there is an analytical record per project budget items by sections stipulated in the budget.

We have nothing to report.

5. Cash

Observation: Does the organization all received donations for the project was used exclusively related to the given projects?

Notes and Recommendations:

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

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

Balance on the bank account as at December 31, 2016 in MDL – 295 612,47, patty cash – 1 194,84 MDL, bank account in EUR – 56 645,04 and bank account in USD – 9 513,00 only for TI-Moldova activities.

6. Managing Procurement of Goods, Works and Services

Observation:

Does the TI- Moldova have all financial documents (invoices, acts, factures, bank excerpts)?
Does the TI- Moldova have copies of all valid essential contracts?

Notes and Recommendations:

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- Moldova;
- 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 "Acquisitions".

7. Compliance with Tax Legislation

Observation:

Does the financial document and transactions correspond Tax Legislation in Moldova?

Notes and Recommendations:

According to the tax legislation, TI- Moldova carrying out economic activities must calculate and pay the following taxes and fees: individual income tax, social and health insurance dues, and individual pension dues.

Within the audited period, TI- Moldova regularly calculated and paid all the taxes and fees and reported to the corresponding state authorities.

We have nothing to report.

8. Economical Conduct of Business and Effective Use of Financial Resources.

Planning of Project Activities

Observation: Does the TI- Moldova managers planned their activities throughout the year activities?

Notes and Recommendations:

TI- Moldova managers planned their activities so that all projects include budget with budget lines which correspond contractual conditions with donors and which needs for project activities.

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- Moldova management.

We have nothing to report.

9. Human Resource Management

Observation: Do the salaries of Project personnel match with existing and property signed employment contracts and does working hour recording exist?

Does the TI- Moldova have social security expenses, including pensions and taxes, been recorded and paid to relevant authorities in accordance with the national legislation?

Notes and Recommendations:

We have verified that the expenditure for the salary items is supported by contracts, payroll records, salary statements, time sheets;

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 budgets.

Administration has assigned the responsibilities and authorities for the work under the projects 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.

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

10. Effectiveness of Project Financial Costs

Observation:

Does the projects expenditure correspond to the level of local prices?

Notes and Recommendations:

When making purchases, TI- Moldova 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, publishing, supplies and materials, transportation services correspond to the level of local prices and raise no doubts as to their reliability.

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

11. Procedures to Verify Selected Expenditure Eligibility of Costs

Observation:

Is the internal control system of the TI- Moldova in place?

Are there any material weaknesses that the TI- Moldova should improve?

Is the approved Financial Project Reports free of material misstatement?

Notes and Recommendations:

The organization employs corresponding authorization procedures (i.e. all the expenses are authorized by the Executive 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 Executive 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 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- Moldova.

In general - the Project Reports are free of misstatements.

Director of Audit Firm, Auditor

Date: June 27, 2017



Alla Kulikovskaia

A handwritten signature in blue ink, corresponding to the name Alla Kulikovskaia.

The report has been read by:

Director of Public Association TI-Moldova

Chief Accountant



A handwritten signature in blue ink, corresponding to the name Nadejda Ojog.

A handwritten signature in blue ink, corresponding to the name Lilia Carasciuc.

Lilia Carasciuc

Nadejda Ojog