



Management Letter on the Audit of Projects

For the Period from 1st of January to 31st of December 2018

**to the Public Association Transparency International
Moldova**

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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 2018 and for the period from 01 January to 31 December 2018 prepared in accordance with provisions stipulated in the Financing Agreement signed between "Transparency International - Moldova" and funding organizations.

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 to TI-M and local contribution);
- Audit of financial reports presented by TI-M to donors for the implementation of the projects in 2017;
- Audit of the following projects:
 1. "Building a State of Law and Democracy in Moldova: The Contribution of Civil Society" Grant No. 28994-AF-03 concluded with Minister of Foreign Affairs through Embassy of the Kingdom of the Netherlands in Bucharest for the period of July 2016 – December 2018.
 2. "Reducing the Risks of Corruption in Draft Legislation" Protect Grant No. 2018-0143 funded by National Endowment for Democracy (NED) for the period of December 2018 – February 2019
 3. "Promoting Good Governance and Accountability" Project No 2018-0858 funded by National Endowment for Democracy (NED) for the period of July 2018 – October 2018 and extension for December 04, 2018;
 4. "Civil society for combating corruption and promoting open governance in the EaP countries" Project No.SEC004/2018/WG1/02-02 funded by Secretariat of the Steering Committee of the Eastern Partnership Civil Society Forum for the period of June 2018 – January 2019;
 5. "Partners in Empowerment" Project awarded to PASOS by European Commission through grant contract no. 354-731 under the grant call EuropeAid/135811/DH/ACT/Multi-ENPI/2014/206 within which TI Moldova recognised as a project co-applicant for the period 15.01.2015 till 15.01.2018 and extension till 30.11.2018.

The review measures have been taken solely as part of your commitment to donors to provide a statement showing how funds from donors have been used and have included a review of the following:

- Verification whether salary costs debited to the programs are recorded throughout the duration of the year in a systematic way and examine whether the salary cost can be verified by sufficient supporting documentation.
- Examine whether the financial report includes a comparison, for every budget item, between the actual costs of activities and budgeted costs as approved by donors for the period.
- Based on materiality and risk the auditor shall examine whether there is supporting documentation related to incurred costs.
- Examine whether foreign exchange gains and losses are disclosed in accordance with what is stipulated in the agreement including appendices.
- Verification of the organization compliance with applicable tax legislation in regard to taxes (e.g. Pay As You Earn) and social security fees.
- Verification whether Transparency International - Moldova had adhered to the procurement stipulation in the agreement.
- Review if outgoing balance for previous period is the same as incoming balance for the current period.
- If the organization Transparency International - Moldova applies modified cash basis as accounting principle, the auditor shall motivate whether applied accounting principle is acceptable for the type of financial report.
- Follow up whether the Public Association Transparency International - Moldova has implemented recommendation from previous audits.

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 2,184,333 or EUR 109,365 for Activities (see page 4 of Progress Report for 2018 and annex 1).

The Expenditure Coverage Ratio is 85%. 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;
- The majority of 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 the "Transparency International - 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



Alla Kulikovskaia

June 28, 2019

1. The Engagement Context

1.1 Reason for the audit

The audit was foreseen in the 2019 Annual Audit Plan and was performed on the basis of Contract conditions with donors.

1.2 Contractual Conditions

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 Transparency International - Moldova, with the conditions stipulated by donors on implementation of the Projects and standard acts of the Republic of Moldova.

- The purpose of the contract signed by Contracting Minister of Foreign Affairs through Embassy of the Kingdom of the Netherlands in Bucharest was the award of a Grant Contract to finance the implementation of the "Building a State of Law and Democracy in Moldova: The Contribution of Civil Society" Grant No. 28994-AF-03, also contains conditions for the implementation of the project, accounting and reporting;
- Contractual conditions for the activities of the "Reducing the Risks of Corruption in Draft Legislation" Protect Grant No. 2018-0143 and "Promoting Good Governance and Accountability" Project No 2018-0858 specified in the agreement with National Endowment for Democracy (NED) and TI-M;
- Grant Agreement No.SEC004/2018/WG1/02-02 from Secretariat of the Steering Committee of the Eastern Partnership Civil Society Forum for "Civil society for combating corruption and promoting open governance in the EaP countries" Project contains terms of activity, implementation and reporting;
- Contractual conditions indicate in Program Cooperation Agreement PASOS by European Commission with TI-M for implementation of "Partners in Empowerment" Project No. 354-731 under the grant call EuropeAid/135811/DH/ACT/Multi-ENPI/2014/206.

1.3 Accounting system and financial reporting

The name of the accounting software of TI-M is 1C. The software was developed by 1C Company based in Russia. All transactions (invoices and contracts payments) have been recorded through 1C software. The payments were processed through the bank. Expenditures related to these Projects were recorded under separate account codes. The accounting records were maintained on a cash basis and a double-entry bookkeeping system is used. The accounting records provide a basis for the preparation of financial reports and comparison of actual vs. budgeted expenditures. All relevant records and

documents are kept in the financial department. Accounting records are in electronic and hard copy. Accounting and other records are stored appropriately in separate registers.

For payments, TI-M uses e-Banking. The Director and the Accountant are the persons authorized to sign payment orders or the bank transfers.

1.3 Internal control system

The Projects was conducted within the internal organization of the TI-M (structures, functions, tasks, authority, responsibilities and segregation of duties) meaning that internal practices and rules for initiation and authorization already applied in the Entity were adopted for activity 2018 as well. Transactions were initiated and recorded in the system by the Accountant. Each payment is approved and confirmed by the Project coordinator.

1.4 Financial Information subject to Audit

The financial information subject to audit is the expenditure and revenue stated in the Financial Reports of the Projects for the period from 1 January 2018 to 31 December 2018.

Sources of funding and revenue		
Activities	USD	Total in EUR
NED Projects:	61 775	53 039
No. 2018-0143	26 775	22 635
No. 2018-0858	35 000	30 404
Project SEC004/2018/WG1/02-02		1 330
Other revenue	500	408
Total of funding and revenue	62 275	54 777
Expenditure		
Grant No. 28994-AF-03		50 543
NED Projects:	51 145	43 830
No. 2018-0143	21 511	18 138
No. 2018-0858	29 634	25 692
Project SEC004/2018/WG1/02-02		1 311
Project PASOS ENPI 354-731		13 681
Total Expenditure	51 145	109 365

Terms and Conditions of the Grant Contract

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

- Targeted financing received for project purposes;
- Primary documents on application of donated funds and their record in accounting books;
- Record of expenditure according to budget items;
- Operations with foreign currency and accuracy in application of the foreign currency exchange rate;
- Operations that imply relations with tax control bodies of the Republic of Moldova.

2. Internal Control System subject to Audit

Below is a summary of our understanding of the internal control system at TI-M, the "Entity", as gathered through the reading of internal rules, our walkthroughs and test of controls as well as a meeting with Ms Nadejda Ojog, Accountant, Ms Lilia Garasciuc – Executive Director of TI-M.

2.1 Procurement process

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.

2.2 Cash and Bank management

The actual checking of details of payments is performed by the Accountant of the Projects who is responsible for checking invoices for accuracy in terms of amount of payment and conformity with the order placed, that the services or goods have been received and there is a proof of delivery. The Accountant prepares the payment documents and uploads the files to online banking system for approval. The Director approves the payments using the online banking services.

2.3 Human resources and payroll

Agreements on the fulfillment of responsibilities have been concluded in writing for full-time and attracted staff, taking into account the salary, which is approved in the project budget. Administration has assigned in a rather detailed way the responsibilities and authorities of the work within the project, as is indicated in specific agreements with employees. Also it defined the measure of responsibility for failure or improper performance of the contract.

Calculation, approval and payment of salary

The costs of staff assigned to the Project have been calculated based on the salary as per budget. The Accountant of the Project prepares the payroll calculation on a monthly basis, The Executive Director validates and approves the payroll documents. After review of payroll documents, the Accountant initiates the payment into online banking system for approval. The Executive Director of the TI-M approves the payment.

2.4 Expenditure and budgetary control

Any proposal for making expenditure shall be within the budget limits of the Project. The Finance Manager is responsible for the verification of the availability of the budget. For purpose of the Projects, the Finance Manager generates automatically the report for budget from the accounting system. This report is used for comparison of the actual expenditures versus budgeted figures. Further, the Finance Manager prepares a “budget tracker” and updates it on a need basis. Significant deviations from the budget have been agreed with the funding organizations.

2.5 Accounting and reporting process

Accounting records are kept. The name of accounting software is 1C. The Finance Manager records the journal entries into the accounting database. Financial Reports are prepared by the Finance Manager of the Project and approved by the Project Manager.

3. The Audit

We have been engaged by the TI-M to perform this financial audit in accordance with the Specific Contract Terms of funding organizations and annual plan of activity TI-M.

3.1 Audit Objectives

The objectives of the financial and systems audit are to enable the Auditor to express an opinion as to whether:

- The Financial Report of the Projects presents fairly, in all material respects, the actual expenditure incurred and the revenue received for the Projects concerned, in conformity with the applicable Contractual Conditions, for the period from 1 January 2018 (starting date of activities) to commencement 31 December 2018 (final date of activities); and
- The projects funds provided by the TI-M have, in all material respects, been used in conformity with the applicable Contractual Conditions.
- The objective of the audit is to express an opinion on whether the Internal Control System set up and operated by the Entity for the purpose of managing risks to the achievement of the objectives of the Projects, was suitably designed and operated effectively in the period

from 1 January 2018 (starting date of activities) to 31 December 2018 (final date of activities).

3.2 Audit Scope

Contractual Conditions

The scope of this audit included obtaining a sufficient understanding of the applicable donor instructions and local laws and regulations which apply to the Projects, the Contractual Conditions and in particular of the requirements for financial reporting, presentation and submission of financial information and the eligibility of expenditure.

Scope of Work

The scope of work of the financial audit covered the expenditure and revenue stated in the Financial Report of the Projects for the period from 1 January 2018 to 31 December 2018. The scope of work of the systems audit covered the design and operating effectiveness of the Internal Control System in the period from 1 January 2018 to 31 December 2018. The Internal Control System subject to audit is described at Section 2 of this report. The scope of work included specific considerations and procedures which are set out further below at Section 3.3.

3.3 Audit Procedures

The scope of work included the following specific considerations and procedures:

Risk assessment and Materiality

We assessed the risks of material errors or misstatements in the expenditure and revenue stated in the Financial Report, whether caused by error or fraud. We assessed the main risks to the achievement of the objectives of the Projects including the risks that:

- The Financial Report of the Projects would not be reliable i.e. that it would not present, in all material respects, the actual expenditure incurred and the revenue received for the Projects in conformity with applicable Contractual Conditions;
- The Project funds provided by the funding organizations could not, in all material respects, have been used in conformity with applicable Contractual Conditions;
- Irregularities could occur or would have occurred which could have an impact on Projects expenditure and income and which would not have been detected and corrected in a timely manner; and
- The relevant Contractual Conditions for the Projects could not have been complied with.

We assessed whether the design of the Internal Control System sufficiently mitigates those risks and whether it is operating effectively. We considered the risks of weaknesses and deficiencies in the design or operating effectiveness of internal controls to determine the nature, timing and extent of evidence gathering procedures.

The assessment was sufficient to design and perform further audit procedures and to determine the nature, timing and extent of test of controls and substantive and analytical procedures.

Obtaining Evidence regarding Design of Controls and Tests of controls

We obtained evidence regarding design of control from the structure of the Projects, grant contracts, (including its amendments), written down policies and procedures and information gathered from project staff. The design of the control was tested for effectiveness during the audited period from 1 January 2018 to the date of the fieldwork audit through compliance testing.

We identified controls which are relevant and appropriate to the Projects and the Entity and to the preparation of the financial report for the Project. This audit being not a performance audit, we concentrated on financial controls rather than operational controls. During our audit specific attention was paid to the Contractual Conditions for:

- Documentation, filing and record keeping that the Entity should maintain for the project;
- Eligibility of Project Expenditure;
- Technical and administrative implementing arrangements. Our audit also covered an examination of the Entity's control environment and more specifically the controls over
- Cash and bank management (existence, valuation, ownership, recording and classification and cash and bank reconciliation);
- Accounting and financial reporting;
- Computerized information system;
- Budgetary and expenditure control; and
- Human resources, payroll processes and time management.

Our audit procedures included tests of controls and inspection (of records, documents and assets), observation, inquiry of management and others within the Entity, confirmation, recalculation and all other procedures and testing that were deemed appropriate in the context of this engagement.

Substantive procedures

We performed substantive procedures to be responsive to our assessment of the risks of material errors or misstatements in the expenditure and revenue stated in the Financial Report, whether caused by error or fraud. Our substantive procedures consisted of the following testing:

General

- Reconcile the Financial Report with the underlying accounting records including the trial balance and general ledgers;

- Reconcile the Financial Report with the balance of cash;
- Agree the budgeted figures as per the Financial Report to the contractual documents; and
- Verify that correct exchange rates have been applied for foreign currency (USD and EUR) conversions where applicable and in accordance with the accounting Policy.

Cash and Bank

- Perform tests of details and procedures in respect of existence, valuation, ownership, recording and classification and disclosure of cash and bank funds held by the Project activities.

Implementation of activities

We examined whether the financial aspects of the Projects appear to be justified in relation to activities realized, results obtained and the budget of the Projects.

Eligibility of Expenditure

We performed tests of details and procedures to ascertain the eligibility of expenditure by evaluating whether the expenditure:

- were acceptable or plausible taking into account the context and Projects activities and the contractual terms and conditions;
- were incurred by the Entity during the implementation period of the Projects as defined in the contractual terms and conditions;
- were recorded in the accounts of the Entity and were identifiable, verifiable and substantiated by originals of supporting evidence;
- included non-eligible costs as described in the contractual terms and conditions; and
- respected the following criteria:
 - accuracy, recording and classification;
 - reality (occurrence/existence); and
 - compliance with the applicable procurement, nationality and origin rules.

For expenditure relates to staff salaries, we reviewed direct payroll costs to determine whether salary rates are reasonable, in accordance with relevant rules of the Entity and other project partners human resources policies (i.e. employment contracts and other conditions), and are supported by appropriate payroll records.

The effectiveness of the financial costs of assets

When making purchases, Transparency International - Moldova's Administration has investigated the market of goods and services, taking into account the quality and price at the level of local practice, as is evident from the proposals, price lists and business correspondence.

The main expenditures for salaries, rent, travel expenses, transportation services correspond to the level of local prices and cause no doubts about their reality. The use of fixed and