



Management Letter on the Audit of Projects
For the Period from 1st of January to 31st of December 2019
to the Public Association Transparency International
Moldova

CONTENTS

	Page
Introduction.....	1
Section 1. The Engagement Context.....	4
Section 2. Internal Control System subject to Audit.....	6
Section 3. Procedures to verify Selected Expenditures.....	7
Section 4. Results of Audit Verification.....	11

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 2019 and for the period from 01 January to 31 December 2019 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 2019;
- Audit of the following projects:
 1. “Building a State of Law and Democracy in Moldova: The Contribution of Civil Society” Grant No. 4000003249 concluded with Minister of Foreign Affairs through Embassy of the Kingdom of the Netherlands in Bucharest for the period of October 2019 – September 2022.
 2. “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– September 2019.
 3. “Civil Engagement to improve Local Governance” Project No.81062661 funded by the Swiss Confederation/Swiss Federal Department of Foreign Affairs (SCD) and the Secretariat of the Transparency International e.V. for the period of November 2019 – May 2021;
 4. “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
 5. “Strengthening Anti-Corruption Policies” Project No 2019-1118 funded by National Endowment for Democracy (NED) for the period of September 2019 – August 2020;
 6. “Global Anti-Corruption Consortium Project” Small grant funded by Transparency International e.V.for the period April – August 2019;

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 1,284,469 or EUR 66,121 for Activities (see page 4 of Progress Report for 2019 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

September 08, 2020

1. The Engagement Context

1.1 Reason for the audit

The audit was foreseen in the 2020 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 and BKR-19-MATRA-01 (4000003249), 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 “Strengthening Anti-Corruption Policies” Project No 2019-1118 specified in the agreement with National Endowment for Democracy (NED) and TI-M;
- Grant Contract No.81062661 from the Swiss Confederation, represented by the Swiss Federal Department of Foreign Affairs, acting through Swiss Representation Chisinau and Small Grant Agreement with cofounding organisation Transparency International e.V (Secretariat) for “Civil Engagement to Improve Local Governance” Project contains terms of activity, implementation and reporting;
- Contractual conditions indicate in Small Grant Agreement “GACC Ad-hoc grant” by Transparency International e.V (Secretariat) for implementation of “Global Anti-Corruption Consortium” Project.

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

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 2019 to 31 December 2019.

Sources of funding and revenue	Total in EUR
Opening Balance	12 018
Project activities:	145 787
BKR-19-MATRA-01 (4000003249)	80 000
Grant no. 28994-AF-03	24 975
Project. No.81062661	25 103
NED Grant 2019-1118	9 126
NED Grant 2018-0143	3 508
TI-Secretariat Small Grant "Global Anti-Corruption	2 211
Member fees and other	864
Total of funding and revenue	157 805
Expenditure	
BKR-19-MATRA-01 (4000003249)	13 102
Grant no. 28994-AF-03	25 176
Project. No.81062661	3 240
NED Grant 2019-1118	8 357
NED Grant 2018-0143	8 115
TI-Secretariat Small Grant "Global Anti-Corruption	2 211
Member fees and other	1 207
NED Grant 2018-0858 reimbursement	4 713
Total Expenditure	66 121
Financial sources for future period	91 684

1.5 Terms and Conditions of the Grant Contracts

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 Lilia Garasciuc – Executive Director of TI-M and Ms Nadejda Ojog, Accountant.

We examine the tools and procedures of internal control.

The TI-M allowed to control the entire process of financial transactions within the project: from the approval and selection of service providers to the control over the provision of services. This is confirmed by the presence of acts on the inventory of operations, control over their use. The work of the staff was also controlled. Working time was calculated and acts on delivery of works and services were drawn up.

For the procurements TI-M applies the National Accounting Standards, which comply with the requirements stipulated in the Agreement with donors to the Procurement Policy.

Audit Findings: In general, the auditors confirm the adequacy of the internal control system for the audited project activity.

2.1 Anti-Corruption Policy

Fighting corruption is a main principle in the cooperation with foreign donors. Partners receiving donations from donors are required to implement measures in order to prevent, discourage and detect all illegal and inappropriate methods of project management or other forms of grant utilisation.

Audit Findings: The Anti-Corruption Policy of the TI-M is described in the Minutes from the Decisions of TI-M Administration Council from 27.07.2018 and 19.09.2019. The TI-M's policy is drawn up in accordance with local legislation level. The Anti-Corruption Policy is to be revised by TI-M administration in order to align it with legislative rigors every two years as noted in minutes.

As a result of our audit, no situations were identified that would cast doubt on the legal management or the proper management of the grant project.

2.2 Financial Reports for the Project Activity TI-M

The audit has examined the financial report per Projects for the period of January 01, 2019 – December 31, 2019 (see p.4 Final Progress Report and Annex 1 of Financial Statement for 2019).

Audit Findings: The report is based on the 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.

2.3 Rules for Accounting and Record Keeping. Significant Accounting Policies

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

The amounts in financial statements are expressed in MDL and EUR (and USD and dollars, depending on donor requirements). The main principle used in accounting is the principle of assessment according to the initial value.

Audit Findings: At drawing the financial statements the cash-basis method is used, which means that expenditure related to the use of targeted financing is recognized in accounting books at the moment of their incurrence and payment. Such cash basis accounting principle is acceptable for this type of TI-M's financial report.

3. Procedures to verify selected Expenditure per Projects Activities

3.1 Procedures to verify conformity of Expenditure with the Budget and Analytical Review

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.

Budget of the Project: We carried out an analytical review of the reported expenditure.

We compared the budget statements in the Financial Report with the budget approved in the Contract with donors.

Audit Findings: The budget presented in the financial report of the projects is identical to that specified in the contracts with the donors.

Amendments to the budget of the Projects: We inquired if there had been any amendments to the budget for this reporting period and were informed that there had been no such amendments.

Audit Findings: As a result of the project expenditure control, the auditors have not revealed any indications of amendments to the Budget on the part of the project Manager in business correspondence.

3.2 Revenue / Overall Funding

The amounts disbursed to TI-M in relation to the Project activities were confirmed by the donors, and the auditors agreed these amounts to the figures included in the Beneficiary's Financial Report.

Audit Findings: Upon the review of compliance with contractual terms and conditions, criteria for accuracy, recording, completeness and Financial Report disclosure, we have audited the proper calculation of the project income to the donors Project funds. All receipts are fully accounted for in accordance with the agreement. An additional source of financing for the project was the other contributions and use in project activities (see p.2 on pag.7 of Financial Statements - "Other revenues").

3.3 Exchange Rates

We examined all incoming grant disbursement transactions, including especially accuracy and completeness of records and evidence of exchange transactions from foreign into national currency.

We verified the exchange rates used to translate transactions recorded in EUR and USD to MDL for reflecting in TI-MS accounting system and MDL in EUR for inclusion in the Financial Reports.

Foreign currency payments received on the bank accounts are registered in the TI-M accounting system in local currency (MDL) at the official exchange rate of the National bank of Moldova at the date of receipt.

However, currency exchange into local currency is actually performed at bank commercial rate (BC "VICTORIABANK" SA, Cod VICBMD2X, Chisinau).

Project expenditure was recorded in accounting books in local currency, while the EUR equivalent was reflected at the currency exchange rate as of the date of transaction. This is embedded in the 1C accounting software.

Auditor findings: In the Explanatory Notes to the Financial Statement (point III Cash Flow Statement) the statement of account on the remaining balances indicated the cash flow in bank accounts. The bank accounts in EUR, USD and MDL are consistent and confirmed by bank statements and TI-M registers.

3.4 Cash and bank accounts

The TI-M generally operates only via bank accounts and uses petty cash in 7%. The Accountant prepares the payment documents, uploads the files to the on-line banking system for approval and registers project activities in the accounts. For payments, the TI-M is using e-Banking. The Project manager and accountant are the persons authorized to sign payment orders or bank transfers.

Audit Findings: Cash transactions comply with local law and account balances are confirmed by bank statements and accounting registers.

3.5 Managing Procurement of Goods, Works and Services

During our audit procedures and tests performed we were guided by the instructions set out in the donors Project Agreements.

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;

We examined the various projects bookkeeping accounts with their supporting documents of receipts and payments in the national currency; to verified whether a clear distinction has been maintained between amounts actually paid out at the point of time when the accounting period ends and payments not yet effected but to be recognized as expenditure for the same period on the basis of the obligations incurred.

Audit Findings: It should be noted that all payments for the projects costs were made on the basis of submitted invoices, contracts and fiscal invoices. The time difference between

receiving invoices and paying is not significant, so there are no unpaid invoices in the projects reports.

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 other issues identified by us under the "Managing Procurement of Goods, Works and Services".

3.6 Staff Remuneration / Calculation, approval and payment of salary/

The costs of staff assigned to the Projects have been calculated based on the salary agreed in the Project budgets. The Accountant of the Projects prepares the payroll calculation on a monthly basis. The Projects manager validates and approves the payroll documents. After review of payroll documents, the Accountant initiates the payment into on-line banking system for approval. The Project manager of the TI-M approves the payment.

The calculation of salaries and their related contributions is performed in the automated accounting system (1-C) and corresponds to the financial and bank documents.

Audit Findings: Wages and salaries were incurred on budget planned.

We have to mention that social and medical contributions were correct calculate. These were calculated according to local legislation. The calculation of taxes and salary contributions was automatically calculated by accounting software. Testing of the salary program did not reveal deviations from tax legislation.

The auditors believe that such measures are sufficient and necessary for the Projects Activity.

We confirm that all payments to staff comply with the project budgets of contract, labor agreements and contracts with persons and do not violate the tax legislation of Republic of Moldova.

3.7 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 mobile telephony is verified through printouts of calls received from telephone centers, and was also controlled by the auditor.

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