

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 2017 and for the period from 01 January to 31 December 2017 prepared in accordance with provisions stipulated in the Financing Agreement signed between “Transparency International - Moldova” and funding organizations.

Content and Scope of the audit

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. “A Case-Based Approach to Fighting Grant Corruption” Project G160458 (Grant Agreement: with Transparency International e. V. (Secretariat) signed on November 26, 2016 for the period of October 2016 – September 2017 /final stage/;
 2. “Promoting Accountability and Transparency in State Enterprises” Project No 2016-512 funded by National Endowment for Democracy (NED) for the period of 2017 /final stage/;
 3. “Increasing the Capacity of Vulnerable Strata of Population to Withstand Corruption” Project No.SMD700-16-GR021 funded by U.S Embassy for the period of February 2016 – March 2017 /final stage/;
 4. “Building Living Space for poor: Protect the Unprotected” Grant No. BKR/16AF/01 concluded with Minister of Foreign Affairs through Embassy of the Kingdom of the Netherlands in Bucharest for the period of May 2016 – April 2017 /final stage/;
 5. “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.
 6. “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.

The 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 2,235,337 or EUR 107,857 for Activities (see page 4 of Progress Report for 2017 and annex 1).

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;
- 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, 2018

2. Procedures performed and Factual Findings

We have performed the specific procedures for the expenditure verification of the Grant Contracts. These procedures are:

- General Procedures
- Procedures to verify conformity of Expenditure with the Budget and Analytical Review
- Procedures to verify selected Expenditure

General Procedures

Terms and Conditions of the Grant Contract

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.

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.

Financial Reports for the Transparency International - Moldova Grant Contracts

The report as of December 31, 2017 is consistent with the reporting period and with the date of presentation of the reports to donators and it has been approved by the Transparency International - Moldova management. The auditors have identified the data that was represented in the report together with the preliminary documents and reflections in the accounting books. Financial data presented in the descriptive report does not contradict the amounts of expenses presented in the report.

Rules for Accounting and Record keeping

Significant Accounting Policies and Exchange Rates

Basis

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 occurrence and payment.

Exchange Rates

The targeted financing (funds) received in EUR and USD is recorded in Moldovan Lei at the official exchange rate as of the receipt date: (see p. IV. Explanation Notes to Financial Statements, "Incomes" on page 6). All the expenses are incurred and paid in Moldovan Lei (MDL).

In reporting for every Project costs, the exchange rate was used for each exchange currency in MDL for the conversion date.

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, 2017 – MDL 20,4099 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.

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

The was audited a sample of 80% of accounts reflecting activity 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 (i.e. bank excerpts, payment orders, cash receipts and expense documents). Full audit was performed also on the project targeted financing expenditure and the expense reports of advance holders.

As a result of the 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.
- Transparency International - Moldova presents regularly reports to donors within the terms established in contracts with the financing organization.

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

1. Managing bank accounts

The objective of the audit was to establish the 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 projects.

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 Transparency International - Moldova corresponds to the bank excerpts and petty cash register.

This registration is sufficiently transparent, corresponds to the records in the TI-M accounting books and confirmed by bank extracts and reconciliation statements.

Balance on the bank account as at December 31, 2017 in MDL 93,615.39, in EUR 61,311.09 and petty cash in MDL 7,030.26 corresponds to the accounting registers and bank statements.

- *Our audit tests on the amounts disbursed to and payments made out of the bank accounts did not identify any breaches of the provisions of the Financing Agreement in respect of the instruction from donors.*
- *Under the area "Managing bank accounts" no issues were identified by us.*

2. 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 Transparency International - 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 "Managing procurement of goods, works and services"*
- *The auditors have not revealed any cases of covering personal expenses of the staff or making other payments not stipulated in the budget.*

3. Accounting and Use of Cash Given to Advance Holders

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 Transparency International - Moldova.

Cash payment is accepted only on the basis of supporting documents. This condition is properly respected by the organization. It worth to mention that share of the cash operations is small (less than 2.3 % of the total cash budget).

- *The auditors have not revealed any cases of covering personal expenses of the staff or making other payments not stipulated in the budget.*

4. Inventory and Short-term receivables

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 seals.

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.

- *Under the area "Inventory and Short-term receivables" no issues were identified by us.*

5. Compliance to Tax Legislation

According to tax legislation, Transparency International - Moldova has to calculate and pay the following taxes and fees: individual income tax, social and health insurance dues and individual pension dues. Within the audited period, the organization regularly calculated and paid all the taxes and fees and reported to the corresponding state authorities.

While examining the accounting and internal control systems, it was established that accounting was automated with Accounting software "1C" and MS Excel spreadsheets; there is analytical record per project budget items by sections stipulated in the budget annexed to donor agreements.

- *The auditors have not revealed mistakes in tax and fee calculations.*

6. Planning of project activities

Due to the fact that the project activities were carried out for whole year the planning and allocation of financial resources, as well as planning of activities and events for the organization was the key to successful implementation.

On the basis of the contracts and project budgets, Transparency International - Moldova managers planned their activities, so that all contractual conditions with donors to be made to the stage of the project.

In particular, there have been identified the main areas of activity, studied the potential suppliers of goods and services, selected major suppliers on a competitive basis. These facts are proven by the documents, contracts and business correspondence of Transparency International - Moldova management.

7. Human resource management

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.

- *The auditors believe that such measures are necessary in the work of the projects.*

8. The adequacy of internal control system

The Transparency International - Moldova allowed controlling the whole process of financial transactions in the projects: starting from the approval and selection of suppliers of goods and services, procurement authorization, rational spending of cash and ending with the 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 of control over the cash, issued by the report. The work of the staff was also controlled. There was carried out the calculation of working time and there have been prepared acts on the delivery of works and services.

- *The auditors confirm the adequacy of the internal control system for the amount of work on the audited project.*

9. The effectiveness of the financial costs for the projects

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.

- *Given the above records, the auditor considers that the misuse of funds is unlikely to happen.*
- *However, having examined the composition of the organization's long-term assets, it was found that many assets have zero balancing value or a balancing cost of less than 100 lei (5 euros). Auditors recommend increasing the value of assets depending on the period of their use or writing off according to the expansion of their useful properties. Such a measure will increase your financial solvency and save you from accounting for excess assets.*

3. Results of Activities

The results of the activities under the Transparency International - Moldova Projects Expenses and the narrative and financial report for the donors as of December 21, 2017 were approved at the Board meeting of organization (Minutes No.1, date March 18, 2018).

Having performed the audit procedures, we can state with a sufficient degree of certainty that project 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;*

- *Projects expenses for the reporting period (January 01, 2017 – December 31, 2017) correspond to the budget items, and amounts presented in the reports do not differ significantly from the amounts planned in the budget;*
- *The assets and services 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.*

Director of Audit Firm, Auditor



Alla Kulikovskaia

Date: June 28, 2018

The report has been read by:

Executive Director

Lilia Garasciuc

Chief accountant

Nadejda Ojog