



Management Letter on the Audit of Projects

For the Period from 1st of January to 31st of December 2022
to the Public Association "Transparency International – Moldova"

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PRIVATE AND CONFIDENTIAL

**To the management of Public Association “Transparency International - Moldova”
(hereinafter “TI-M”) Chisinau, Republic of Moldova**

Subject: Financial Reports of the project activity of Public Association “Transparency International - Moldova” for the period January 01, 2022- December 31, 2022

LETTER TO THE MANAGEMENT

According to the agreement no. 09-23 NGO dated 05.05.2023, the audit firm “Alkont” L.L.C. performed the audit of financial statements of the Public Association “Transparency International - Moldova” which comprise the balance sheet as at December 31, 2022, the income and expenditure statement of charges in sources of funding for the year that ended, and notes to the financial statements, including a summary of significant accounting policy.

The purpose of this letter is to draw your attention to several findings depicted by us throughout the audit. The respective issues are presented further on the pages of the attached report. Our objective while drawing up this report is to use the gathered by us information during audit in order to make certain comments and suggestions useful for you. However, please note that the primary objective of our verification is to express an opinion on financial statements, and therefore we do not aim at a specific testing of the internal control system. Thus, this verification should not be relied upon to detect all material misstatements and shortcomings that may exist. In addition, this report is not to be considered as an attestation opinion, neither shall it diminish or exempt you of responsibility to settle an adequate internal control system.

This report is a part of our continued dialogue between the Public Association “Transparency International - Moldova” and us, have been intended solely for use of the management of the organization TI-M 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);
- Audit of financial reports presented by TI-M to donors for the implementation of the projects in 2022;
- Audit of the following projects:
 1. "Mobilizing Civil Society to Monitor and Report on State Integrity and Anticorruption Activities in Moldova" Project No. SINLEC20GR3113 funded by U.S. Department of State for the period May 12, 2020 – November 30, 2023 (Reporting period 2022).
 2. "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 2022 year.

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 incur 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 IAS 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 EUR 119,274 for Activities (see page 4 of Progress Report for 2022 and annex 3).

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.

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 20, 2023

1. The Engagement Context

1.1 Reason for the audit

The audit was provided for by the Annual Audit Plan for 2023 and was carried out on the basis of the terms of the contract with project 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.

- Contractual conditions indicate in Grant No. SINLEC20GR3113 funded by U.S. Department of State for the period of 2022 year;
- 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;

1.3 Accounting system and financial reporting

The name of the accounting software of TI-M is “1C-accounting”. 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.

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 2022 to 31 December 2022.

| Sources of funding and expenditure | Total in EUR |
|--|-----------------------|
| Opening Balance | <u>47,927</u> |
| Sources of funding: | |
| Project No.SINLEC20GR3113 (\$ 4,861) | 4,278 |
| BKR-19-MATRA-01 (4000003249) | 41,870 |
| Member fees and other | 1,779 |
| Total of funding and revenue | <u>83,783</u> |
| Project No.SINLEC20GR3113 (\$ 85,451) | 83,556 |
| Member fees and other (MDL 2,457) | 127 |
| Expenditure | <u>119,274</u> |
| Project No.SINLEC20GR3113 (\$77,765) | 76,138 |
| BKR-19-MATRA-01 (4000003249) | 41,870 |
| Member fees and other | 1,266 |
| Financial sources for future period | <u>12,436</u> |

2. Report of the auditor's assignment follows auditing contract concluded between Transparency International - Moldova PA and audit firm Alkont LTD on the auditing of financial activity in 2022.

2.1 Project Accountings.

We examine the propriety of projects accounting operations and their conformity with the Project Contracts in all its parts as well as with relevant national regulations.

Audit Findings: *The TI-M maintains accounting records for the projects in accordance with the contracts and approved budgets for all of its items. Accounting is consistent with local fiscal laws and accounting practices in NGOs.*

2.2 Internal control system.

We examine the tools and procedures of internal control system as the 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 management of TI-M.

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.*

2.3 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 included in the Statute of the organization, where the Code of conduct and the Conflict of interests are enforced. 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.*

2.4 The authorized personnel.

We examine whether the person(s) enjoying power of disposal over the project bank accounts is/are the same or among those officially authorized to represent the Legal Holder of the project. Also, we examine whether there have been any changes regarding staff enjoying authorization to represent the Legal Holder of the projects

Audit Findings: *During the audited period, the officially authorized representative of the donor is the Executive Director Garasciuc Lilia until October 31, 2022 and Lillia Cravcenco from November 1, 2022 – Executive Director of TI-M and Ms Nadejda Ojog, Accountant, who signed the project contracts. The bank account manager is the Executive Director of TI-M and the accountant is Ojog Nadejda.*

This information complies with official TI-M documents as well as orders and appointments. During the audited period the officially authorized to represent of the Legal Holder of the project and Bank account managers did not change.

2.5 Financing of projects

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).

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

2.6 Cash accounts

The TI-M generally operates only via bank accounts and uses petty cash in 0,18%. 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:*

For the end of 2022:

Bank accounts in MDL – 61510,24; Petty cash in MDL – 341,26;

Bank accounts in EUR – 0, Bank account in USD – 10 000,00.

2.7 The payments for the project costs

We examine the various project bookkeeping accounts with their supporting documents of receipts and payments in the national currency; to verify 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 project 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 project report.*

2.8 Wages and salaries

We examine staff payrolls and lists of professional fees paid with regard to their being in accordance with the project budgets.

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.

Payment of project salaries for authorized person in accordance with the terms of contracts for project activities and budgets:

Amounts in MDL

| Authorized personnel | Project SINLEC20 GR3113 | Project BKR-19-MATRA-01 (4000003249) | Total personnel costs (including taxes and insurance) | Tax statement 2022 |
|---|-------------------------|--------------------------------------|---|--------------------|
| Director and Project manager Carasciuc Lilia | 186 678 | 199 408 | 386 086 | 386 086 |
| <i>Distribution of salaries by projects</i> | 48% | 52% | 100% | |
| Director and Project manager Cravcenco Lilia | 40 583 | | 40 583 | 40 583 |
| <i>Distribution of salaries by projects</i> | 100% | 0% | 100% | |
| Project assistance Kalughin Mariana | 98 921 | | 277 179 | 277 179 |
| Expert Kalughin Mariana | | 178 259 | | |
| <i>Distribution of salaries by projects</i> | 36% | 64% | 100% | |
| Accountant Ojog Nadejda | 116 278 | 63 337 | 179 615 | 179 615 |
| <i>Distribution of salaries by projects</i> | 65% | 35% | 100% | |
| Expert Spinei Ianina | 86 072 | 239 103 | 325 174 | 325 174 |
| <i>Distribution of salaries by projects</i> | 26% | 74% | 100% | |
| Services: | 41 202 | 18 560 | 59 762 | |
| <i>Distribution of salaries by projects</i> | 69% | 31% | 100% | |
| Ciuchitu Vera | | 3 100 | 3 100 | 3 100 |
| Dimitrov Alexandru | 4 650 | 4 650 | 9 300 | 9 300 |
| Mițu Ion | 3 224 | | 3 224 | 3 224 |
| Muntean Stela | 3 100 | 3 100 | 6 200 | 6 200 |
| Obreja Efim | 10 577 | | 10 576 | 10 576 |
| Pădure Nadejda | | 3 100 | 3 100 | 3 100 |
| Scerbațchi Octavian | 9 075 | 3 370 | 12 445 | 12 445 |
| Țicu Viorica | 10 577 | | 10 576 | 10 576 |
| Tugarev Laura | | 1 240 | 1 240 | 1 240 |

We have verified the distribution of authorized staff salaries (including social insurance) received across 2022 projects. The total is in line with payroll registers as well as 2022 tax returns.

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

We have to mention that social and medical contributions were calculated correctly. 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. Procedures to verify selected Expenditure per Project Activities

3.1 Analytical Review

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 Projects. 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 Projects: 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.

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

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 Financial Reports for the Project Activity TI-M

The audit has examined the financial report per Projects for the period of January 01, 2021 – December 31, 2022 (see p.4 Final Progress Report and Annexes 1-3 of Financial Statement for 2022).

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.*

3.3 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, 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 MCA's financial report.*

3.4 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 service 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.*

It should be noted that in the last reporting year, the residual value of fixed assets is 3% of the total assets, and in 2022 the organization updated the IT equipment for 20166 lei. Thus, the book value of long-term assets is 53,919 lei, or 13% of the total assets.

3.5 Financial Reports for the Transparency International - Moldova Grant Contracts

The report as of December 31, 2022 is consistent with the reporting period and with the date of presentation of the reports to donors and it has been approved by the Transparency International - Moldova management.

Audit Findings: *The auditors have identified the data that was represented in the report together with the financial 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.*

4. Results of audit verification

The results of the activities under the TI-M Projects Expenses and the narrative and financial reports to the donors as of December 31, 2022 were approved at the Board meeting of TI-M. 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;
- The financial report includes a comparison between the actual costs of activities and budgeted costs for every budget item as approved by donors. Projects expenses correspond to budget items;
- Projects expenses for the reporting period (January 01, 2022 – December 31, 2022) correspond to the budget items, and amounts presented in the reports do not differ significantly from the amounts planned in the budget;
- At drawing the financial statements, the cash-basis accounting method is used, such cash-basis method principle is acceptable for this type of TI-M's financial report. Since the temporary difference between the received financial documents and their payment was insignificant, the TI-M accounting department actually kept accounting on a cash basis;
- The TI-M complies with the procurement conditions specified in the Agreements with funding organization;
- The salary costs were debited to the projects, and were verified by supporting documentation. Direct costs of personnel agree with gross salaries (including social and health insurance) and with the tax reporting;
- Organization complies with tax laws as part of project activities;
- Accounting books correspond with cash flow in bank accounts;
- The cost of assets and services received within the project correspond to the level of local prices;
- All the operations in the accounting books are reflected as of the period of the actual incurrence.

Director of Audit Firm, Auditor

Date: June 20, 2023



Alla Kulikovskaia

The report has been read by:

Executive Director

Chief accountant



Lilia Cravenco

Nadejda Ojog